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FUTURE FOR DEMOCRACY

By

RAMSAY MUIR

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P R E F A C E

THIS book is an attempt to bring out the significance of the tremendous choice that seems now to be imposed upon the civilised world: the choice between democracy and dictatorship, between liberty and servitude.

Twenty years ago, at the end of the Great War, the system of Liberty seemed to be triumphant throughout the world. To-day it is on the defensive, and timidly on the defensive. While its leading advocates maintain this attitude, their cause daily loses strength.

If it remains merely on the defensive, and allows the rival system to win victory after victory, its ultimate defeat is almost certain.

Democracy must go forward, and be fearless, if liberty is to survive. Its resources are still vastly stronger than those of its opponents.

This does not mean that the defenders of liberty must be aggressive or militarist. It does not mean that they must be ready to rush into war, though they must be ready to meet war if it is forced upon them.

What it does mean is that democracy must show

P R E F A C E

itself to be a dynamic and progressive creed, in three respects. In the first place, it must reconstruct the collective system of defence, which its leaders have allowed to fall into disrepair, and at the same time show its readiness to establish justice as the only means of banishing the menace of war. In the second place, it must strengthen and improve its own methods of government, so as to refute the charge of inefficiency which has been levelled against it. In the third place it must make progress in social justice, so far as the terrors and the vast demands of the time permit.

Unless the system of liberty shows itself to be a vital and dynamic system—unless it pursues, with courage and imagination, the organisation of real peace, of good and free government, and of social justice—unless, by these means, it can once more arouse the enthusiasm of this generation as it aroused the enthusiasm of our fathers—it may fail; and if it fails the world will be plunged back into barbarism.

It can, almost certainly, attain these ends without being drawn into the horrors of war. But the risk must be taken, as the only means of avoiding the certainty of ruin.

To set forth, in no partisan spirit, the kind of policy that seems to me to be necessary if these ends are to be attained is the purpose of this book. I send it forth with a deep sense of the responsibility of every good

PREFACE

citizen to do everything in his power, in this momentous crisis of human affairs, to ensure that his country plays a part not unworthy of its great past.

This is not a party pamphlet, though no doubt it is coloured by the political standpoint of its writer. It is an honest attempt to set forth plainly, as I see them, the momentous issues that face us to-day.

In its first form (which has been substantially altered) the book had the advantage of close criticism and suggestions from my friends, Sir Walter Layton, Mr. Seebohm Rowntree and Mr. Geoffrey Crowther. I want to thank them ; but they are in no way responsible for the book.

RAMSAY MUIR.

REGENT'S PARK,
February, 1939.

CONTENTS

| CHAP. | PAGE |
|--|------|
| I. THE CHOICE | 1 |
| II. PEACE AND LIBERTY | 51 |
| III. FREEDOM OF TRADE | 78 |
| IV. MACHINERY OF GOVERNMENT | 103 |
| V. EDUCATION OF DEMOCRACY | 133 |
| VI. SOCIAL REORGANISATION | 152 |
| VII. DISTRIBUTION OF WEALTH | 174 |
| VIII. ORGANISATION OF INDUSTRY | 201 |
| IX. THE LAND | 233 |
| X. NATIONAL DEVELOPMENT | 255 |
| XI. THE SOCIAL SERVICES | 269 |
| XII. WAYS AND MEANS | 294 |

CHAPTER I

THE CHOICE

THE world to-day seems to be faced by a choice between two sharply conflicting conceptions of government and of social organisation, which are loosely and very inadequately described by the terms "democracy" and "dictatorship". According to the one conception, the State exists to secure the conditions of a free and full life for the individual; according to the other, the individual exists for the service of the State. According to the one, the Government belongs to the people; according to the other, the people belong to the Government.

Until a few years ago, the civilised peoples seemed to have definitely made their choice in favour of the first of these alternatives. To-day some of the most powerful among them have swung over, suddenly and violently, to the other view. Not only that, but they (or at any rate their Governments) seem to have resolved that the system of liberty must, if possible, be destroyed wherever it exists; and we are threatened with the possibility of an armed conflict between them,

FUTURE FOR DEMOCRACY

which might well end in the ruin of civilisation, at any rate in Europe.

It is vitally important that we should realise clearly the character of these rival conceptions, or "ideologies" as it has become the fashion to call them. To bring out the nature of the contrast is the purpose of this chapter. The next chapter will be concerned with the question how, if at all, we can avert the dread possibility of a conflict in arms between them. On the assumption that this ruin can be avoided, the remainder of the book will be devoted to a discussion of what is necessary to make the system of liberty more just and more efficient than it has yet become; and how we can bring about in our own country a national revival which will re-create the flagging ardour for freedom, and make it something not only worth dying for, but worth living for.

We must begin by describing the system of liberty as it had been developed before it had to face the challenge of dictatorship.

1

About two centuries ago a great movement began which, in these two centuries, has transformed the conditions of life throughout the world, and raised before the eyes of men a new vision of what human life can be made.

The best name for this movement is the "Liberal" movement: I use the word not in any narrowly party

THE CHOICE

sense, but in the broad sense in which it is employed both by contemporary defenders of the movement, such as President Roosevelt and General Smuts, and by contemporary opponents of it, such as Herr Hitler and Signor Mussolini.

Western civilisation had been moving, slowly and with difficulty towards greater liberty of thought and speech and intercourse ever since the modern era began. But in the eighteenth century there sprang, chiefly from the philosophers of France, who drew their inspiration from the thought and practice of England, a new and bold conception, which set the world on fire. It was, briefly stated, the conception that human society ought to be, and could be, reorganised upon a basis of liberty and brotherhood, and that the time-honoured privileges of rank, and class, and wealth ought to be, and could be, swept away.

This revolutionary ideal won its first victory in the American Revolution. But it found its most challenging expression in the French Revolution, which began in a country that had been, *par excellence*, the model of absolute monarchy. The spectacle which was offered in the first stage of the Revolution, of a great nation, almost without distinctions of class, setting itself to reorganise its life on the basis of liberty and brotherhood, thrilled the world, and aroused great hopes which have never been fully realised. This inspiring beginning was followed by horrors, turmoils and wars which led to disillusionment. But

FUTURE FOR DEMOCRACY

the inspiration was never wholly quenched; and, reinforced by many other factors, it brought about a political and social transformation during the nineteenth century which affected, in a greater or less degree, the whole civilised world.

How glowing were the hopes thus raised was reflected by the poet Wordsworth, who, though like others he fell a victim to disillusionment, could nevertheless write, as he looked back to that rosy if stormy dawn:

“Bliss was it in that dawn to be alive,
But to be young was very heaven.”

In the work of reconstruction which began as soon as the long revolutionary wars were over, a much greater part was played by the practical, prosaic, peaceful compromises and agreements of British politics than by the frequent revolutionary upheavals from which France, and indeed all Europe, suffered during the first half of the nineteenth century; and it was not until the second half of the century that, impressed by the success and prosperity which the growing liberties of Britain seemed to have brought her, nearly all the other European nations set themselves to imitate her methods.

The ideal of a free society is one which enlarges as we draw nearer to it; and the pursuit of it is like climbing a mountain—at each stage of the climb a new summit seems to offer itself to our effort. There is as yet no country in which the ideal of a fully free

THE CHOICE

society has been attained; none in which every citizen enjoys the material conditions necessary for genuine freedom, or of which it can be said that it is each man's or woman's own fault if they do not make a good thing of their lives; none in which a real equality of opportunity is afforded to all its citizens.

Nevertheless, great advances were made during the nineteenth century. Without attempting to narrate the course of events which led to these results, let us try to describe the system of liberty as it had developed in nearly all the civilised countries down to the outbreak of the Great War.

2

It is usual to describe the conflict of to-day as a conflict between democracy and dictatorship. That is a very inadequate summary. A democratic system of government is only one element, and perhaps not the most important, in a system of liberty. Democracy has only existed, in the greater part of Europe, for eighty or ninety years, and universal suffrage has only existed, even in Britain, since the war. But many of the most vital elements in the system of liberty had been established long before democracy.

Nevertheless the apparent triumph of the democratic system was one of the outstanding features of pre-war Europe. Every European country, except Russia and Turkey, had adopted it, at any rate in form. Outside of Europe the United States and the British Dominions

FUTURE FOR DEMOCRACY

were complete democracies. The South and Central American republics were at least democracies in form. Japan had adopted a parliamentary system; China had plunged into chaos in the attempt to achieve it; India and Egypt were clamouring for it. It had come to be regarded as the normal form of government for a civilised State.

But in many countries it was not working well, even before the war. In too many cases it was merely a mask, behind which organised class interests wielded the reality of power. The truth is that democracy is not an easy system to work, because it involves the harmonising of a multitude of wills; whereas dictatorship is an easy system to work, since it involves the forcible subjection of all wills to one. Whatever its defects, however, the democratic system has two great compensating virtues. It substitutes reason and persuasion for force and dictation in the management of human affairs; and it makes possible a change of government without a violent upheaval.

Democracy may be described as the keystone of the arch of human freedom: it is the last stone of the arch to be inserted, but it holds the other stones in their places, and if it be lost the other stones are apt to be displaced or loosened. What are these other stones? The first is personal freedom. Before the Great War the iniquity of personal slavery had disappeared, almost throughout the world, after having existed during all the centuries of human history. Negro

THE CHOICE

slavery had been brought to an end in the British Empire in 1833, and in the United States in 1865; and the traffic in slaves had been suppressed, mainly by the efforts of the British Navy. Serfdom, also, which is a modified form of slavery, had vanished in all the civilised countries, even in its last European stronghold, Russia.

The second is the Reign of Law, which had become an essential mark of a civilised State. In every country men's lives and liberty, rights and property were free from the danger of invasion by arbitrary power, or in any other way than by due process of law; and if they were invaded by lawless men, the power of the State was enlisted to protect and revenge them. It is true that the wealthy still had an advantage over the poor in nearly all legal systems; but, at the least, the protection of the law was available for all, and it was, in general, impartially administered.

Freedom of thought, of worship, of speech and of publication was a third feature of the system of liberty which the whole civilised world seemed to have adopted. Religious persecution, which is the most abominable of iniquities because it invades the most sacred aspect of personality, seemed at last, after many centuries, to have come to an end; and, everywhere save in Russia, the most persecuted of peoples, the Jews, were free to make their great contribution to the common stock of civilisation. The emancipation of thought and publication was perhaps the most vital element in

FUTURE FOR DEMOCRACY

the system of liberty. It was the main stimulus to that progress which has been more remarkable in the Liberal age than in all previous ages of history.

A fourth feature of the system of liberty was that, in nearly all countries, men were free to combine with others like-minded with themselves to forward causes in which they believed. This "freedom of association" encouraged the formation of churches of many shades of belief, of political parties advocating various political ideas, of trade unions to protect the interests of various groups of workers, and of a multitude of propagandist associations. The activities of these bodies, and the discussions to which they gave rise, stimulated the intellectual life of the peoples, and greatly contributed to progress.

Out of all these liberties there had sprung, during the nineteenth century, a large tolerance of political and religious differences such as had never existed before. And if it be true that with many tolerance declined into indifference, it is also true that it was one of the noblest and one of the most essential features of the system of liberty. Without it democracy could not work.

With the growth of liberty had also come a growing kindness of man to man. Cruel punishments were abolished, and there was a very prolific growth of institutions for the relief of all kinds of distress. The Liberal age was also the humanitarian age. Many remediable evils still survived; but the humanitarian

THE CHOICE

spirit was at work, as never before, to redress them. Never in history had there been so many men and women giving themselves to various forms of social service; never had there been such ready anger against injustice, or so widespread a sympathy with human suffering. An eminent anthropologist has said that the growth of charity is the best criterion of the growth of civilisation. Charity includes both tolerance and human kindness; and, judged by this criterion civilisation had never made such progress as in the Liberal age.

Another product of the system of liberty was that education was for the first time made available for all: the keys of knowledge were put into their hands. The education given to the children of the poor was, and still is, far from adequate. But it has steadily improved; and it has to some extent made them masters of their own powers and opened to them the gates of advancement.

In some ways the most remarkable advance of the system of liberty has been the emancipation of women, who have, through the ages, been treated as the inferiors, the drudges or the playthings of man. For the first time in history they have become men's equal partners in the upbuilding of civilisation; and this movement of emancipation is spreading even to the eastern lands in which the subjection of women has always been most absolute.

The most remarkable achievement of the nineteenth

FUTURE FOR DEMOCRACY

century was the amazing increase which it secured in the control of Man over Nature, and in the volume of wealth which it thus made available for Man's use. This was due, in the first place, to the progress of knowledge which freedom of thought and speech made possible; and, in the second place, to the freedom of enterprise which all civilised states granted to their citizens. The ebullient energy of individual enterprise, ever seeking new ways of making profit, opened out the world, ransacked it for old and new materials, exploited the discoveries of science, developed new modes of swift transit and communication, and thus placed the resources of the whole globe at the disposal of its peoples, bringing within sight the day when poverty and drudgery should be banished from the face of the earth.

With freedom of enterprise went freedom of intercourse and trade between the peoples of the earth. Although most governments strove to restrict or regulate this growing intercourse, because they feared to be dependent upon other countries for necessary supplies, they could not stop it; and an incessant stream of men, ideas, goods and capital passed from land to land, while myriads of ships plied to and fro upon all the seas of the world, like so many shuttles on a vast loom, weaving the fabric of a united world. One great country, Britain, allowed unfettered intercourse, and for that reason became the pivot of the world's economic system, its chief banker, carrier and emporium, and the

THE CHOICE

principal supplier of the means for developing the world's empty spaces, and thus increasing the world's wealth.

But freedom of enterprise, while it brought many boons to the world, brought also many evils. Unregulated, it put the weak at the mercy of the strong. There were marked social evils visible, even in the most progressive countries, on the eve of the Great War: an intolerable maldistribution of wealth; a dangerous preponderance of power wielded by the controllers of great masses of capital; a grave insecurity of livelihood for the mass of workers; ugly slums and unhealthy conditions of life, which made freedom unreal for those who had to live amongst them. But these evils were recognised; and in all the progressive countries, but especially in Britain, the war against poverty and unhealthy conditions of life was being seriously waged. To create the material conditions of freedom for all their citizens was the principal objective which the free States were pursuing, when the War came to interrupt their work and to divert to destructive ends the wealth which might have been used to forward it.

Not only within the States that had adopted it, but in the relations between peoples, the system of liberty was bringing about great changes.

In the last quarter of the nineteenth century, the devouring energy of the western peoples brought under their control all the backward lands whose peoples were still in a barbaric state; and the Governments of

FUTURE FOR DEMOCRACY

Europe undertook the gigantic task of bringing these peoples within the orbit of civilisation. There were, in the first stages, many injustices and cruelties; but they were outweighed by the benefits which the new regime brought. Britain, who played the largest part in this development, had already a long experience in the colonial field; and she had learnt, in this field, to regard herself not as a mere owner, but as a trustee: a trustee, on the one hand, for the rights of the simple peoples who had to be led gently into the way of civilisation; a trustee, on the other hand, for the civilised peoples who needed the products of these lands, and whose traders were admitted to all British dependencies on equal terms with British merchants. The principle of trusteeship was not always faithfully observed, but it was more and more clearly accepted. It is the only principle upon which the relations between the progressive and the backward peoples can be justly conducted.

Again, during the nineteenth century the principle of nationality was widely accepted in Europe. This is the principle that the limits of States should be determined not (as almost always in the past) by the accidents of conquest or dynastic inheritance, but by the natural affinities of their peoples. It was a corollary to this that all peoples, great and small, should be free to define their own political and social systems without interference; and, on the whole, they enjoyed this right unimpeded. When the war began, there were

THE CHOICE

still large regions of Europe whose peoples had not yet achieved national freedom or unity; and this was one of the chief causes of the great upheaval. The War was to give an opportunity of rectifying these defects.

Finally, the nineteenth century had made real progress towards the establishment of a system of peace in which law should take the place of force in the settlement of international differences. The "Concert of Europe", being limited to the Great Powers, was an imperfect instrument; but by insisting that differences should, wherever possible, be settled by international negotiation, it gave to Europe, during the nineteenth century, two longer periods of peace than she had ever known. All the smaller States, which were the happiest and best-governed in Europe, felt themselves secure under the guardianship of the "Concert"; two of them, Switzerland and Belgium, had their neutrality formally guaranteed. There was a very rapid increase of arbitration and other peaceful means of settlement; it culminated in the establishment of the Hague Tribunal as the century closed. In many matters, such as the law of copyright, postal arrangements, the enforcement of the Red Cross convention, and the regulation of traffic on the Danube, the nations were learning to co-operate. When the League of Nations was established after the Great War, it was not merely an idealist dream; the way had been prepared for it by a century of development.

FUTURE FOR DEMOCRACY

Such were the main features of the system of liberty which the world seemed to have adopted before the Great War. It was very far from being perfect. There was room for great improvement, especially in the economic and in the international spheres. But it was a growing system, not a static one, and it was constantly being bettered. The ideal of liberty was dynamic, and men's ideas of what liberty demanded were becoming more generous.

Then the tragedy of the Great War came to interrupt this gradual development. At first, indeed, it seemed as if the result of the war ensured the final triumph of the democratic ideal and of the system of liberty. According to President Wilson, the world had been made "safe for democracy". A far-reaching territorial readjustment was made, which gave satisfaction to the aspirations of subject or divided nationalities, and the two great anti-national empires, Austro-Hungary and Turkey, were broken up. On this side, the peace settlement was not unjust; it was the first peace settlement in history which was guided by a principle, the principle of nationality. Every State in Europe, new or old, with the exception of Russia, adopted a fully democratic system, which meant that (in theory) their internal differences were to be settled by discussion and not by dictation.

Above all, the League of Nations was established, as an organ for the discussion of the common affairs of the whole human race. Its primary function was

THE CHOICE

to ensure that international differences should be settled by discussion and not by force, by compelling any nation inclined to take the law into its own hands to realise that it would be resisted by the organised power of the whole civilised world.

All this seemed to make it clear that the system of liberty had won a decisive victory, and would henceforth determine the development of civilisation. And this conclusion seemed to hold good for some years after the war, in spite of the manifold troubles that afflicted all nations during those years. Indeed it was not seriously challenged for a dozen years. The League of Nations, which was the international emblem of the democratic ideal, reached perhaps its highest point of influence and authority about the year 1931.

But then a violent reaction began, which had in truth long been gathering force. Not merely the democratic form of government, but every single item in the system of liberty as we have tried to describe it, was vehemently and scornfully repudiated by some of the most powerful governments in Europe. They won triumph after triumph, until, by the autumn of 1938, it had come to seem doubtful whether the system of liberty could survive.

We must first discuss the causes which led to this violent reaction, and then analyse the alternative ideals which the enemies of liberty offered to the world, before we can form a sound judgment on the choice which now has to be made.

FUTURE FOR DEMOCRACY

3

What were the causes of the reaction against liberty?

Many have persuaded themselves that the root cause was to be found in the injustice of the peace-settlement which followed the war. But this is an exaggerated view. There were, indeed, injustices in the peace-settlement; but they could have been removed, and some of them were in the way of being removed before the reaction had reached its height in the years following 1931.

The territorial rearrangement in Europe which was carried out was in its main features essentially just. It is true that Germany was deprived of certain territories; but they were non-German lands which she had forcibly seized. The restoration of Poland as an independent State was the undoing of an ancient wrong. The establishment of a new State under the brand-new name of Czechoslovakia concealed the fact that this was the restoration of a State which had played a great part in European history for a thousand years; within the clearly marked boundaries of Bohemia and Moravia, Czechs and Germans (or German-speaking Slavs) had lived together during all these centuries; and the neighbouring region of Slovakia, which had been a badly governed province of Hungary, was inhabited by a people who were closely akin, in race and tongue, to the Czechs of Bohemia and Moravia. The great enlargement of Rumania, and the transformation of the little realm of Serbia into the wide territory of

THE CHOICE

Yugoslavia involved the bringing together of peoples of the same race and language. The recognition of the independence of Finland, Estonia, Latvia and Lithuania gave freedom to small nationalities that had long been suppressed under alien rule.

It is true that in most of these States there were racial minorities; for the whole of south-eastern Europe is a tangle of mixed races. There are only two ways of dealing with such a situation. One is the method of forcibly suppressing all minorities: this method had been used for centuries, and had utterly failed. The other is the method of giving equal rights to all minorities. The peace settlement tried to secure the adoption of the second method by imposing upon the States of mixed races "Minority Treaties" which bound them to give equal rights to all minorities. But these treaties were not well observed, because racial feeling had been raised to fever pitch during the war. Only one of the new States honestly tried to carry out the principle of equal rights—Czechoslovakia.

In the main, then, the territorial readjustment was sound, though there were injustices of detail, as in the definition of the boundaries of Hungary, which could have been subsequently amended. But there were other aspects of the settlement which were indefensibly harsh, notably the penal clauses against Germany, which created among a great people, the pivotal nation of Europe, an unendurable sense of humiliation. The crushing burden of reparations that was imposed upon

FUTURE FOR DEMOCRACY

Germany, and that threatened to ruin her economic life, and her enforced disarmament, in the midst of other nations all armed to the teeth, were both unendurable.

The fact that the new democratic system, set up in Germany after the war, had to accept their humiliating conditions necessarily weakened it. The older democratic countries ought to have recognised that the maintenance of democracy in Germany was of vital importance for the preservation of liberty in Europe, and ought to have made every attempt to ease the situation.

These injustices could have been removed. The burden of reparations was actually cancelled in 1931; but not until the German people had been brought to financial chaos by the attempt to enforce it—notably in the French occupation of the Ruhr in 1923, which brought about a collapse of the German currency, and the ruin of the middle class, the most stable element in German society. The cancellation of reparations, when it came, was enforced by a world-wide economic crisis: if it had been voluntarily conceded at an earlier date, German democracy would probably have survived.

Again, the enforcement of German disarmament had been accompanied by a pledge that it would be followed by the voluntary disarmament of other countries. If this pledge was not fulfilled, it was inevitable that, sooner or later, a powerful nation would refuse to accept the situation, and would re-arm. If it *was*

THE CHOICE

fulfilled, the German people would realise that they could trust to international justice, and German democracy would have been strengthened. But it was not until twelve years after the war that a disarmament conference was summoned; and when it met the determination of the dominant powers to preserve their military ascendancy ensured its failure, and, at the same time, ensured the downfall of democracy in Germany.

The harsh and unimaginative treatment of Germany was not the only major blunder of the peace settlement. The Austro-Hungarian Empire, which the peace treaties broke up into five independent States, had been a single economic unit, a great free-trade area; and this had been the source of the prosperity of its various parts. When it was dismembered, this economic unity, and the prosperity which resulted from it, were disturbed. All the new States set up high tariff walls against their neighbours, and strove to make themselves self sufficient. This brought distress to all the five States; but especially to the two great capitals of the old Empire, Vienna and Buda-Pesth, which had drawn their prosperity from the old conditions: they were now like heads cut off from their bodies, and could not hope to thrive in the new conditions.

Nor was this all. Each of the five States maintained great armies, recruited by universal compulsory military service; and soon the number of men under arms was greater than it had been before the war. Each of them

FUTURE FOR DEMOCRACY

had to deal with substantial minorities of the same nationalities as their neighbours; and in the excited state of national feeling nurtured by the war, all of them, except Czechoslovakia, treated their minorities badly; and even Czechoslovakia was not without offence.

These consequences of the dismemberment of an ancient political and economic unit ought to have been foreseen by those who framed, or endorsed, the new system. No doubt it was right that the suppressed nationalities should win their freedom. But the evil results of this change could have been minimised if the new States had been persuaded, or forced, to accept an economic union; and if a measure of disarmament had been imposed upon them, as it was upon Germany. From economic union some form of federation might in time have followed; and this would have provided the best means of safeguarding the rights of minorities. The leaders of post-war Europe missed this opportunity, and left the Danubian States to be the prey of the rival ambitions of greater powers, and therefore a source of the danger of war, whereas they might have been a bulwark of peace.

It was not the actual terms of the peace-settlement, mistaken as some of them were, which caused the reaction; it was rather the failure of the powers which dominated the world after the war to use their opportunities in a Liberal spirit. This failure cannot be laid at the door of the League of Nations; for the League

THE CHOICE

was not, and was not intended to be, a super-national authority. Its function was that of providing the machinery through which the nations could co-operate if they were willing to do so. But co-operation demanded leadership; and the dominant powers failed to give the imaginative and courageous leadership that was required.

The Powers which dominated the world at the end of the war were the three great democracies, Britain, France and America; and it depended upon their action whether the victory of the system of liberty should be made real and lasting.

Unfortunately America refused to join the League of Nations, which had owed its existence largely to her President, and withdrew into her traditional isolation. If she had been willing to play her part, her influence would have been decisive, not only because of her wealth and power, but still more because she was wholly disinterested in European affairs. Her withdrawal was a disaster.

France, again, was too much dominated (not unreasonably) by a fear of German revival. Although she was a warm supporter of the League of Nations, she regarded it rather as a means of maintaining the *status quo*, and keeping Germany down, than as a means of rectifying grievances; she formed a series of alliances with the States on Germany's eastern front which were intended to hem in that disarmed and despairing nation; she insisted upon her pound of

FUTURE FOR DEMOCRACY

flesh in the matter of reparations, and was responsible for the occupation of the Ruhr in 1923 which brought Germany to financial ruin; she even used negro troops for the occupation of the Rhine Province, and this was regarded as an unforgivable outrage by the Germans.

Of the three great democratic powers, therefore, only Britain remained as a possible leader towards appeasement and peace. To her, as the great Liberal power, the historic spokesman and representative of the Liberal point of view, the world looked for leadership—especially the lesser States, which depended for their safety upon the League. But Britain had fallen under the control of the Conservatives, most of whom were half-hearted about the League system, and paid to it no more than lip service, regarding it as a product of mere sentimentalism. They were inclined to wash their hands of responsibility for Europe, and to imagine that the world-wide British Empire could stand alone. So far as they were interested in Europe, they were, in these early years, inclined to sympathise with the French attitude towards Germany: during the peace negotiations 233 Conservative members had signed a round robin to Mr. Lloyd George, threatening to withdraw their allegiance if he let Germany off too lightly. For these reasons, Britain did not use the leadership which was in her hands, except when, in 1926, she undertook to guarantee the Locarno treaties, whereby she hoped that any renewal of war in Western Europe would be prevented. But her leaders declined to accept

THE CHOICE

any direct responsibility for the maintenance of peace in Europe as a whole.

Thus the leadership that was needed if the system of liberty was to be placed on solid foundations was lacking. Nevertheless, the League system seemed to be gradually establishing itself down to 1931, when it reached perhaps the highest point of its influence and authority. The deep discontents which were working under the surface were not yet apparent.

Even more important than the political causes of unrest which we have surveyed were the economic distresses of the time. In every country, including the neutrals, the war had produced a grave dislocation of trade and industry; and at a time when the capacity for the production of wealth had been enormously expanded, all peoples were suffering from acute distress. During the war the ordinary course of commerce had been rudely interrupted. Not only was trade between the belligerents on both sides abruptly stopped: the resources of all the belligerent countries were necessarily devoted to war-production for their own use, and they could no longer supply the needs of the countries to which they had previously sold their goods. These countries were therefore forced to supply their own needs, and new industries grew up in them which could not stand the competition of their old suppliers when international commerce was resumed. They therefore strove to protect their "infant industries" by tariffs, which inevitably impeded the revival of trade.

FUTURE FOR DEMOCRACY

This tendency was strengthened by the fevered nationalism which had been born of the war. The Governments of all States had been convinced that it was dangerous, in time of war, to be dependent upon other countries for their necessaries, and especially for foodstuffs and the materials of munitions. They therefore set themselves to make their countries economically self-sufficient, as far as possible; and this pursuit of economic self-sufficiency brought Europe almost to ruin. It did not reach its height until the economic crisis which began in 1929; but the crisis itself was largely due to the restrictions upon trade already imposed.

These difficulties were increased by the policy adopted by the "creditor countries", which had advanced large amounts of capital, either for war-purposes or for economic development, to many other lands. The only way in which they could be paid the interest due to them in these advances was that the "debtor-countries" should be free to send them their products, out of the sales of which the interest could be paid.

The chief "creditor-countries" were the three great democracies, Britain, France and America, and this fact gave to them a very powerful lever which could have been used to bring about a general revival of prosperity, and therefore to make peace and liberty secure. But France and America, which had only become "creditor-countries" on any large scale since the war, were both committed to a policy of high protection; that is to

THE CHOICE

say, they put serious difficulties in the way of the admission of the goods by which alone (in the long run) the debts due to them could be paid.

Even Britain, which had long been a “creditor-country”, and had, under her free trade system, admitted without impediment the products of her debtors, was affected by the prevailing mania; after the war, she began putting on duties to “safeguard” what were called “key-industries”, and many minor industries as well. She did not, indeed, become a fully protectionist country until 1932; but she was plainly tending in that direction.

Now the result of all this was that, since the “creditor-countries” were unwilling to accept the goods of their debtors in payment, they were largely paid in gold; and the greater part of the world’s limited stock of gold was drawn into the treasuries of America and France, where it lay idle in vaults. Heaps of unused yellow metal are no substitute for the real wealth that comes from the interchange of goods, and the creditors as well as the debtors were impoverished by this development.

What was more serious, the monetary systems of almost the whole world were based upon gold. By a great effort all countries had returned, by 1925, to a modified form of the “gold standard”, which ensured that their currencies should be of steady value in relation to one another, and therefore facilitated trade. But when nearly all the gold was being drained towards

FUTURE FOR DEMOCRACY

America and France (and, after 1932, towards Britain) the maintenance of the gold standard became impossible; and this was one of the main causes of the terrible economic collapse of the years following 1929.

There was only one way in which the abundance that the earth was producing could be made available for the use of the earth's peoples and the relief of their distresses. This was that there should be the freest possible interchange of goods among the peoples. The attainment of a large degree of freedom of exchange had been one of the main triumphs of the Liberal system during the nineteenth century. But the universal trend towards "economic nationalism" and "national self-sufficiency" was destroying this freedom, and therefore impoverishing all nations, and producing a state of dissatisfaction which might lead to revolutionary consequences.

All these economic maladjustments were greatly intensified by the crisis which engulfed the whole world in the years following 1929. The source of this crisis was a stock-jobbing panic in America; and the fact that the whole world suffered from it was a proof that the world was economically interdependent, and that the attempt to attain economic self-sufficiency on the part of any country, was mere folly.

Nevertheless, all countries, instead of reversing the policy that had brought them to this pass, only intensified it. They raised higher and higher tariffs; they invented new methods of hampering trade, quotas,

THE CHOICE

prohibitions and exchange restrictions. They all strove to enrich themselves at one another's expense, and in the process impoverished themselves and one another. Even Britain, in the universal panic, abandoned freedom of trade which had made her the centre of world-commerce, and by thus closing the last great open market in the world greatly increased the universal distress.

The result of this general madness was that in three years the total volume of international commerce was reduced to one-third of its dimensions in 1929; and in every country there were armies of unemployed workers, some 10,000,000 in all, whose numbers could only be kept down by vast and unremunerative public works or expenditure on armaments, which everywhere raised the burden of public debt to unheard-of dimensions.

In 1933 people were beginning to awaken to a sense of the dangers of this development, and a World Economic Conference was summoned in London. The experts of all nations, who drew up its agenda, agreed that unless the channels of trade could be reopened, the whole economic system would break down, the standards of life would everywhere be lowered, and political upheavals might follow. But the Conference came to nothing; and the Powers whose attitude made its deliberations ineffectual were the three great democratic countries, the three great creditor-countries, the three countries who had had the leadership of the world in their hands—Britain, France and America.

FUTURE FOR DEMOCRACY

Closely related to the general economic unrest of the time was a growing dissatisfaction with the way in which the material resources of the earth were distributed among the nations. Some countries had dense populations which they were unable to support from their own resources, but possessed little or no territory of value beyond their own limits. The most outstanding of these were Germany, Italy and Japan. Other countries possessed vast empires, including most of the tropical lands whose products had become necessary for modern industry. These included Britain, France, America, Russia, Belgium and Holland: all, except Russia, democratic countries.

If these great empires, which controlled the greater part of the earth's resources, had given open access in these lands to the traders of all nations, as Britain had done until 1932, the substance of the grievance would have been removed. But, even so, in this era of self-sufficiency and excited national feeling, the grievance would still have been felt. When the masters of these wide territories strove to reserve them exclusively for their own use, the grievance became acute; and when, in 1932, at the Ottawa Conference, Britain, the greatest of imperial powers, adopted a policy which aimed at imperial self-sufficiency and exclusiveness, it seemed as if all the great democratic nations were setting themselves to exclude the suffering peoples from access to that immense proportion of the world's abundance over which they exercised control. Here was yet another

THE CHOICE

sphere in which the great democratic powers, who had in their hands (if they liked to use it) the leadership of the world, could have done something to alleviate the world's distresses, and refused to do so.

These were the conditions, and this was the atmosphere, in which the great reaction against the system of liberty took place. There were real political grievances, and no serious attempt had been made to heal them. National sentiment had everywhere been brought to fever-heat, and the national pride of several great peoples had been deeply wounded. Economic distress was universal, and the madness of economic nationalism seemed to be driving all nations towards ruin. The great democratic countries, which might have led the world towards a peace based upon justice, and which wielded a supremacy in finance, in trade and in the control of dependent territories that could have been used to alleviate the world's miseries, had refused to do so, and were using their power solely for their own advantage. The League of Nations, to which most people had pinned their hopes, seemed to have failed to satisfy these hopes, because the countries which ought to have supplied the needed leadership had failed to do so. In short, the system of liberty, which seemed to have triumphed in the Great War, had failed to give the world what it needed, because its chief defenders had not grasped their great opportunity or risen to their high responsibility.

This is how things appeared to thoughtful people.

FUTURE FOR DEMOCRACY

And this view was taking hold of the minds of men who had lived through a great war, in which they had learnt that the way to success was the use of violence under the absolute authority of military leaders. In many countries opinion began to swing away from belief in the system of liberty, to be sceptical about co-operative action between nations, and to welcome the idea that each nation must fend for itself, and would best do so under the firm, competent and (if need be) ruthless direction of a despotic leader.

The great reaction against liberty was due to the failure of the Liberal States to act liberally at a critical moment when the future destinies of the world seemed to lie in their hands.

4

The countries which abandoned the democratic system fell into two categories.

In some States democracy did not, and could not, work well, because the peoples were not trained to use it. In these cases dictatorial regimes were established as a provisional and temporary means of overcoming the difficulties of the time; but they did not abandon the system of liberty as a whole, and professed an intention of ultimately restoring it in full. Examples of this type were Poland, Rumania, Yugoslavia, and Spain under Primo de Rivera.

But there were other States in which absolute power was seized by the leaders of highly organised parties

THE CHOICE

which proclaimed their utter hostility to all the ideals of democracy, and set themselves to destroy every element of the system of liberty as we have described it. The outstanding examples of this type in Europe were Russia, Italy and Germany. These States set up dictatorships not merely as temporary expedients, but as means to the establishment of a "totalitarian" organisation of society, which they set up as an alternative to the democratic ideal, and for which they strove to create an enthusiasm among their followers.

Japan constituted a third category. Here, without displacing the forms of parliamentary government, the military chiefs seized power, and committed their country to a gigantic military adventure, in the course of which they found it necessary to arrogate a complete control over the whole economic life of the country, so that Japan soon came to present a close resemblance to the totalitarian States of Europe.

The temporary dictatorships—established, in some cases, under constitutional forms—which professed that their ultimate purpose was the restoration of a democratic system once the difficulties of the time were overcome, offered no such challenge to the fundamental ideas of the system of liberty as the "totalitarian" dictatorships that repudiated all the ideals after which the civilised world had been striving for two centuries. We need only concern ourselves with the "totalitarian" group. If they should achieve

FUTURE FOR DEMOCRACY

success, the “temporary” dictatorships were likely to imitate their methods.

In all cases the rise of dictatorships was due partly to economic distress, partly to political confusion and disillusionment. In every case an organised political party, forming a minority of the nation, seized power under the direction of leaders who were convinced that they knew how to restore well-being and national self-respect. In every case the dominant party, once it had secured control of the engine of government, used its power ruthlessly, and established itself by the methods of sheer terrorism. In every case it forcibly suppressed criticism, turned the schools, the press, the wireless, into the means of constantly indoctrinating the subject masses with its dogmatic opinions, and suppressed all recalcitrants with the most brutal ferocity. This was their method of securing a unity that would displace the divergent opinions of democracy.

The Russian people had never known any semblance of liberty; and when the old Tsarist system collapsed under the pressure of war, and chaos followed, it was not very difficult for a group of able and resolute men who believed that they knew the secrets of human well-being, to seize the reins of government, and to carry out their ideas, destroying, with utter ruthlessness, all opposing forces. At first, in their enthusiasm, they hoped that it was not merely a Russian revolution, but a world revolution, that they had initiated; they fostered knots of ardent Communists in every country,

THE CHOICE

and aroused the alarm of every established government. But after a time there came a change. When Stalin succeeded to the dictatorship of Lenin, and initiated a series of Five Year Plans for the reorganisation of the economic life of Russia, it appeared that this was in itself a big enough undertaking, especially in the face of underground opposition, the crushing of which strained the strength of the dictatorship. For the time being, therefore, Russia ceased to be an international menace. She concluded non-aggressive agreements, which she has loyally observed, with all the border States which had been largely or wholly carved out of her pre-war territory. She even joined the League of Nations, and became the most ardent advocate and upholder of collective security.

The Russian dictatorship was set up during the war, and was fairly well established by 1920. The first of the post-war dictatorships was that of Italy, set up in 1922; the third that of Germany, in 1933, and it is these two which have fixed the character of the new “totalitarian” ideal.

Italy had been one of the victorious allies; but her people were bitterly disappointed with the results of their war-effort. They suffered even more acutely than other peoples from the economic distress that followed the war. Many of the Italian workpeople were influenced by the Communist ideas that came from Russia; they were seizing factories, to the alarm of the master-class. The parliamentary system was

FUTURE FOR DEMOCRACY

working badly, and the disputes of parties made firm government impossible. Benito Mussolini seized this opportunity; organized a party of Fascisti, mainly young bravos who were not afraid of using violence; and seized power. By lawless violence, every element of opposition was crushed; and all the organs of opinion were brought under the control of the Government. There is no doubt that the energetic administration of this able and masterful man not only stopped the drift towards chaos in Italy, but restored confidence and hope to the nation. He appealed especially to Italian youth to sacrifice themselves for the restoration of the ancient glories of Italy; and an appeal to sacrifice and to battle is always sure of a response from ardent youth.

In Germany a great and patient people felt that they had been ground into the dust by the severity of the allies, and reduced to impotence amid despised neighbour nations. They had established a democratic system, and hoped to get redress of their grievances by peaceful means, but without avail. They had been overwhelmed by economic disaster, first by the crushing demands of the allies, and then by the monetary collapse which followed the French occupation of the Ruhr. A visionary dreamer and fanatic, Adolf Hitler, who had persuaded himself that the German people were the destined rulers of the world, that they could only achieve their true position by the unflinching use of force, and that the democratic idea was a sham and

THE CHOICE

a fraud, formed a party of National Socialists, mostly young enthusiasts who believed in violence. But the German people, still believing in democracy, would have none of him when he attempted a *putsch* in 1923. When year succeeded year, however, and there was no alleviation of distress; when the Ruhr was occupied, and the middle-class was ruined; when the economic blizzard struck Germany and distress deepened; and, above all, when the disarmament conference displayed no readiness on the part of the democratic powers to put Germany into a position of equality: the appeal of National Socialism grew stronger. But the followers of Hitler were still a definite minority, and the bulk of the nation, though wavering, were still loyal to democracy, when a series of political intrigues brought Herr Hitler to the Chancellorship, and gave him command of the engine of government. He used it decisively and ruthlessly; and very swiftly the most complete and unflinching "totalitarian" system which Europe had yet seen came into being.

Russia (1917), Italy (1922) and Germany (1933) were now all under totalitarian systems: that is to say, in all three countries the Governments claimed and asserted absolute control over the minds and bodies, the thoughts and actions, of all their subjects. All three regarded the democratic system with scorn and hatred; all three repudiated every aspect of the system of liberty as we have described it.

But there was one marked distinction between

FUTURE FOR DEMOCRACY

Russia and the other two. The professed aim of the Russian dictatorship was the emancipation of the "proletariate" and the creation of a classless society: Bolshevik enthusiasts even asserted, very absurdly, that when the constructive work of the dictatorship had been accomplished, there would be no further need for it: the State would "wither away", and complete freedom would be enjoyed by all men. This aim could not be achieved. Soon there was as marked a distinction, even in material well being, between the members of the ruling bureaucracy and the mass of their subjects as ever there had been between the wealthy and the poor in the democratic countries. But still, the aim was there, even if only as a theme for perorations. Moreover, since the ultimate aim of the Bolshevik State was that these benefits should be extended to all peoples, there was no narrow racial pride among the Bolsheviks; in some sense their creed was cosmopolitan, and regarded all men as equals.

On the other hand, the inspiration of the Fascists in Italy, of the Nazis in Germany, and of the military class in Japan, was racial pride. Mussolini restored the self-confidence of Italian youth by reminding them that they belonged to the race which had built up the Roman Empire and laid the foundations of western civilisation. He challenged them to restore the ancient glories of an imperial race, and to establish, by the ancient weapons of military power, an Italian Empire of the Mediterranean. But he reversed the great

THE CHOICE

Roman motto *parcere subjectis et debellare superbos*: his motto has rather been *parcere superbis et debellare subjectos*.

Hitler, on his side, preached the greatness and glory of the Nordic or Aryan race: this little, dark man, with the aid of his little, dark, wizened adjutant, Goebbels, is never tired of proclaiming the nobility of the “great blonde beasts” who were the fathers of the Germanic race. This was the inexhaustible theme of his book *Mein Kampf*, which has become the very Bible of Nazi Germany; it was the justification of his hatred of the Jews. The German race must be kept pure. All the dispersed fragments of it must be brought within the German Reich. Then this mighty race must win by the sword fresh territories for its expansion; but the inhabitants of these territories must not be allowed to defile the purity of the German race. Ultimately it must win the mastery of the whole world. Then, and not till then, will peace come; and those who want peace must labour for a German victory.

This insane racialism is, of course, utterly unscientific. No people in Europe, or in the world, is racially “pure”; and the Germans, like the others, are sprung from a mixture of many races. But the doctrine of the racial superiority of the Germans has been driven, by constant iteration, into the mind of the German people. It had no small part in reviving their confidence and self-respect.

Among the Japanese, also, racialism is rampant.

FUTURE FOR DEMOCRACY

They believe themselves to be the only people in the world who are descended from the gods and ruled by a god. It is their divine destiny to be the masters and rulers of Asia, and perhaps ultimately of the whole world. And they need not feel any compunction of pity or humanity in their dealings with other and inferior peoples, as they have shown in Korea, in Manchuria, in China.

Racialism, brought to this pitch of hysteria, is a very dangerous thing. If it takes possession of powerful peoples it must threaten the world with an endless series of wars of conquest, and no concessions will do anything but strengthen it. The racial fanaticism of the Germans, the Japanese, and (in a less degree) the Italians, is far more dangerous to the peace of the world than the doctrinaire fanaticism of the Russians.

One of the grimmest features of the totalitarian States is their exaltation of the State, and the denial of the value of personality which is implicit in the demand for the utter and abject submission of every citizen to the will of the State's masters. The State is, in truth, put in the place of God, as it was in the Roman Empire when the Emperors were deified, and all subjects of the Empire were required to worship them. That was the ground of the persecution of the Jews and Christians under Nero, Domitian and Diocletian. That is the ground in Germany to-day not merely of the horrible persecution of the Jews (for which there are other motives) but of the growing persecution of Roman

THE CHOICE

Catholics, and of Protestants such as Niemöller, who refuse to submit to the State regulation of their faith. That is the ground of the “anti-God” violence which has disgraced the Russian revolution. In Japan the Mikado, powerless in the hands of his generals, has always been venerated as a god, and in his name hideous atrocities are committed. The anti-religious movement does not go so far in Italy, because it is necessary to keep on good terms with the Pope; but the Pope himself is manifestly uneasy. In the last resort, totalitarians cannot permit any of its subjects to exalt above the State even Almighty God.

There is no doubt that, under able and forceful direction, the “totalitarian” system has greatly increased both the power and the efficiency of the peoples who have submitted to it. But it has done this at the cost of sacrificing all that makes civilisation worth having. And in all the totalitarian States there is good reason to believe that there are large elements which deeply resent this sacrifice. Everywhere dictatorship is upheld only by the ruthless force of a minority. But the minority control the machine-guns, and revolt seems to be impossible.

We have said that the totalitarian States have repudiated every element in the system of liberty that had been developed in Europe during the last two centuries. It is worth while to substantiate this by reference to those features of the system of liberty which were enumerated earlier in this chapter.

FUTURE FOR DEMOCRACY

The Liberal movement had brought to an end the forced labour of slavery or serfdom. It has largely been restored in the labour-camps and the forced labours of fortification in the totalitarian countries. The Liberal movement had established the rule of law; in the totalitarian countries thousands of men suffer imprisonment, torture and death by arbitrary decree and without any semblance of law. The Liberal movement had established freedom of thought, of speech, and of the press: this freedom has been destroyed in the totalitarian countries, where a man expresses at his peril any idea unpleasing to the Government, and where the press prints only what the Government wants its subjects to read—as often as not, lies. The Liberal movement had established freedom of association; in the totalitarian countries all political parties save that which upholds the Government, are suppressed by force; the Trade Unions have been brought under Government control; the Churches are strictly supervised. The Liberal movement had brought about a remarkable growth of toleration and of human kindness; in the totalitarian countries toleration is a crime, and brutality a virtue—humanitarianism, says Hitler, is “a compound of stupidity, cowardice and arrogance.” By means of organised systems of education, the Liberal movement had placed the keys of knowledge in the hands of all men: totalitarianism has turned education into a means of indoctrinating the young with the ideas which their masters want them to

THE CHOICE

hold. The Liberal movement had emancipated women; totalitarianism is pressing them back into the old subjection.

The freedom of enterprise and of intercourse between peoples which produced such astonishing results in the Liberal age has been replaced in the totalitarian States by a rigid regimentation of industry under the control of the State, and by a drive towards self-sufficiency which denies to the people access to the world's abundance; and if the State has conferred some boons upon the workers, it has also gravely reduced their standards of living, and deprived them of the means of striving for their own advancement.

Again, the Liberal movement had gone far towards the establishment of the principle of trusteeship in the relations between the more progressive and the more backward peoples. Italy has exemplified in Abyssinia how the totalitarian State will deal with backward peoples. Nazi Germany has, as yet, had no such opportunity; but Herr Hitler's very clear pronouncements as to the necessity of the absolute and permanent subjection of the "lower" to the "higher" races show in what spirit this power would be exercised.

Finally, the Liberal movement had been striving after the substitution of reason and discussion for force and dictation in the relations between States. The totalitarian States have withdrawn from the League of Nations, and have proclaimed in the most unmistakable terms that force, and force alone, must rule. "In

FUTURE FOR DEMOCRACY

constant war," says Herr Hitler, "mankind has become great; in eternal peace it must perish." Germany, Italy, Japan, all glorify war, and intend to fulfil their destinies by its means.

Such are the two alternative ideals of human society between which the world to-day has to make its choice. It sometimes seems as if the decision would have to be made, in the end, by war, since such is the will of the dictators; and it looks as if every surrender in the hope of appeasing them only postponed the evil day, and made the ultimate victory of the system of liberty more dubious. The democracies are willing enough to live on friendly terms with the dictatorships, since it is one of their principles that every people ought to be free to choose its own form of government and social organisation. But the dictatorships apparently will not, and perhaps cannot, live peacefully with the democracies, because the desire for freedom is an infectious thing, and not the most perfect control of the press and the most complete closing of frontiers can prevent the infection from spreading. The continued existence, anywhere, of the system of Liberty is dangerous to the dictators.

"In the future," we are assured in *Mein Kampf*, "there are only two possibilities: either the world will be governed according to the ideals of democracy, in which case the weight of decision will fall in favour of the numerically larger races; or the world will be ruled according to the natural law of the survival of the

THE CHOICE

fittest. Then the victory will be to the peoples of ruthless determination."

Mussolini has expressed the same idea even more trenchantly. "The struggle between two worlds can permit of no compromise . . . Either we or they ! Either their idea or ours ! Either our State or theirs !"

It would appear, then, that in the view of the two great European dictators there must be a struggle of life and death between the system of liberty and the system of dictatorship; and that this conflict must be decided by war. If such a war comes, it may well be the end of civilisation, at any rate in Europe; and the supreme question which faces this generation is the question whether this awful horror can by any means be averted.

5

During the last five years, since the establishment of the Nazi tyranny in Germany, the dictators have won an uninterrupted series of triumphs. Yet, five years ago, it would have seemed unthinkable that such triumphs should be won. Both Germany and Italy were in a state of acute economic distress; they seemed to be on the verge of bankruptcy. Germany was still disarmed, and surrounded by a number of highly-armed States that feared her revival. Although she promptly reintroduced compulsory military service, she could only train one year's crop of conscripts at a time, and she had a serious shortage of trained officers

FUTURE FOR DEMOCRACY

and non-commissioned officers. It would take twenty years to train all the men of military age for war, while France and her allies had been training each batch of conscripts, year by year, ever since the termination of the war: perhaps this was why Hitler promised his people twenty years of peace. How, then, did it come about that the dictators were able to win triumph after triumph, when they dared not have faced the peril of war without the certainty of destruction?

Their method was simple and daring. They traded upon the universal dread of war. This was as strong in their own countries as in the democratic countries; but their own peoples were held down by a highly organised system of terrorism, and had no means of making their views heard: every day a shrieking press assured them that they were united in support of their masters, and those who shivered with dread probably supposed that they were in a minority, and in any case dared not open their lips.

Another element in the technique of the dictators was to give solemn undertakings not to do the things they intended to do, and then to break these undertakings with sudden violence. Thus Mussolini urged the admission of Abyssinia to the League of Nations, thereby pledging himself to uphold her independence and territorial integrity; he also made with her a treaty of arbitration; and these were the preambles to his iniquitous attack upon a small and unoffending people. Thus Hitler announced that Germany would "accept

THE CHOICE

in its innermost soul" the treaty of Locarno, before denouncing the treaty and sending troops into the demilitarised Rhineland; he declared on several occasions that he had no intention of interfering in Austria or of annexing it before sending his armies in to occupy the country; and he assured Czechoslovakia that she had nothing to fear from Germany before dismembering that unhappy country. Thus, finally, both Mussolini and Hitler joined in an international agreement not to intervene in the Spanish Civil War, and then despatched thousands of troops and great quantities of munitions to aid the Spanish rebels, who would have been overwhelmed without this help; while the democratic powers refused to allow the Spanish Government to exercise its right, under international law, to purchase the munitions needed for its defence.

It is evident that the pledges of dictators cannot be relied upon; they are used merely as a means of throwing dust into the eyes of their victims and their possible opponents. The security of treaties, which is the very foundation of international morality, has become of no avail.

Each of these cynical and violent defiances of international morality could have been prevented without war if, at the right time, a group of powers had offered a firm front to the aggressors; for neither Germany nor Italy dared have run the illimitable perils of a great war. But at every point the democratic powers, obsessed by the fear of war, gave way before the daring

FUTURE FOR DEMOCRACY

tactics of the dictators; and with every surrender the power and prestige of the dictators increased, the *moral* of the democratic powers weakened, and the danger of war came nearer.

Only on one occasion was combined action attempted, in the case of Italy's attack upon Abyssinia. Even then, action was taken too late, after the attack had begun: it would never have been delivered if Italy had been told three months or six months earlier that the whole strength of the League of Nations would be arrayed against her, for the attack upon Abyssinia was an exceedingly risky undertaking. But the unanimous will of the world to prevent aggression was shown by the fact that fifty nations joined in the application of economic sanctions. Within a month this combined action, which could assuredly have defeated Italy if it had been pressed home, was wrecked by France and Britain, who feared that they might be involved in war, and who wanted to keep Italy in a common front against Germany. The result was that Italy, having learnt to despise the democratic powers, became an ally of Germany. The League of Nations received a blow from which it has never recovered; and the dictators learnt that they could with impunity pursue their own ambitions, knowing that the panic fear of war will prevent the other powers from going further than mild protests. We have seen Britain, once a proud nation, looking on helplessly while British ships pursuing their lawful business, and carrying international observers

THE CHOICE

to guarantee that they carried no arms, were sunk by Italian aeroplanes, in defiance of international law; so great is the fear of doing anything to offend the dictators, so paralysing the dread of war.

The most decisive of the victories which dictatorship has won was the ruin and dismemberment of Czechoslovakia, the only real democracy in Central or Eastern Europe, and the only State that has honestly striven to deal justly with its racial minorities. This State was hateful to Herr Hitler, because it offered a refuge to fugitives from the Nazi tyranny, and because it barred the way to the German schemes of expansion in south-eastern Europe.

It is as certain as anything human can be that this outrage could have been prevented, without war and without surrender, if the right action had been taken at the right time. In August, before Herr Hitler had committed himself at Nuremberg, a joint note might have been presented to Germany by Britain, France, Russia, Poland, Rumania and Jugoslavia, in which the signatories might have insisted that any German claims upon Czechoslovakia must be settled, not by force or by the threat of force, but by an international conference; and that if this was refused, and Czechoslovakia was attacked, all these powers would come to her aid.

It is unthinkable that, in face of such a Note, Herr Hitler would have precipitated war. His only ally, Italy, would have stood aloof. His own generals assured him that the German army could not stand

FUTURE FOR DEMOCRACY

the strain of such a war, having only four conscript years trained. He knew that he could not find the forces necessary to overwhelm the resistance of the splendidly equipped Czech army behind their fortified lines, if he also had to provide for the defence of his western and his eastern frontiers. He had reason to fear revolt among his subjects, and perhaps even in the army, if he led Germany into a hopeless war. In these circumstances he would have had to agree to an international conference, and a victory would have been won for the method of discussion over the method of force.

But apparently no attempt was made to organise any common effort. Herr Hitler mouthed loud threats of war, though he *may* have been bluffing up to the last moment. The world was seemingly brought to the edge of the abyss, and only plucked back from it at the last moment by a humiliating surrender at the expense of a free people. The panic fear of war still ruled; and it was increased by the fact that all the resources of Germany had been devoted to the creation of a great air-force. Nothing has such terrors as the threat of an attack from the air, although it had been demonstrated in Spain that air bombardment cannot be decisive. The rulers of the great democracies, thinking only of the defects in their own defences, and forgetting the weaknesses of the other side, yielded to dictatorship, without a blow, a victory which may prove to be more decisive than Waterloo.

THE CHOICE

For this victory gave to Germany the domination of Europe, and all the sacrifices of the great war, which had been made to prevent Imperial Germany from winning this supremacy, were thrown away. No single power west of Russia was left which was capable of resisting the might of Germany. The little free States—Switzerland, Belgium, Holland, Denmark, Norway, Sweden, which had been the happiest and best-governed States in Europe—were left at Germany's mercy. And the great democracies, France and Britain, which had a few years earlier been the greatest powers in the world, were compelled to strain their resources in heaping up armaments to defend their very existence, and to live under the imminent menace of coming war. They were forced also to realise that if the dictators succeeded in establishing their control or influence in Spain, which the democracies had not tried to impede, France would be exposed to attack on every frontier, and the lines of communication of both Britain and France with their overseas empires would be gravely menaced if war should come.

Such were the results of discarding the methods of collective security, and of striving to appease the insatiable ambitions of militarist dictators by surrender at the expense of weak States. The powerful combination which could, a few years earlier, have put a stop to aggression without risk of war had been broken up. The very foundation of international order, which is respect for treaties, had been destroyed, not only by the

FUTURE FOR DEMOCRACY

violence of the dictators, but still more by the faithlessness of the democratic States to the system which they had themselves built up. The League of Nations had been reduced to futility. And the forces loyal to the system of liberty had been sorely weakened and demoralised.

That is the situation which has been brought about by the events of the last seven years. In the next chapter we shall have to consider how it should be dealt with, and what hope there now is of avoiding the imminent horror of a war of rival ideals, more terrible and destructive than the old wars of religion.

CHAPTER II

PEACE AND LIBERTY

IN the last chapter we have seen how the peace of the world, and the survival of the system of liberty, are menaced by the vast and unrestrained ambitions of the totalitarian dictatorships. How can the horror of another general war be averted? Or to put the same question in another way, how can these dangerous ambitions be restrained without an actual appeal to force? And if (as is possible) it is already too late to avert the horror, how can the forces that are available for the defence of liberty be so organised as to ensure victory for that cause?

These are momentous questions, which demand sober and careful answers.

1

There is only one sure way of preserving peace. It is the same method which is used in all civilised societies to prevent crimes of violence. The nation that wants to aggrandise itself by force, like the criminal, must be made to realise that a power far greater than its own,

FUTURE FOR DEMOCRACY

the power of the organised community of nations, will be arrayed against it if it breaks the peace.

But this is not enough. An aggrieved nation, that feels it is not being justly treated, must be enabled to feel, as the aggrieved individual can feel, that it is not necessary to take the law into its own hands, because peaceful methods of dealing with grievances are available.

To provide this twofold assurance was the purpose for which the League of Nations was created. But the League has broken down. And the reasons for the breakdown were two. The first, and the chief, was that it was not steadily and firmly supported by the nations to which it looked for leadership. The second was that its machinery was perhaps inadequate for the peaceful redress of the serious grievances inherited from the war, and that this machinery, such as it was, was not used for this purpose with the requisite imagination and foresight.

The League having broken down, those who were chiefly responsible for its breakdown turned, at first hopefully, to another method of preserving peace. Accepting the view, which they formerly repudiated, that the peace settlement was grossly unjust, and that its injustice was responsible for the rise of the dictatorships, and for their truculence, they have hoped to restore peace, not by removing (so far as possible) the grievances of all nations, great or small, but by giving way to the demands of the dictators at the expense

PEACE AND LIBERTY

of weak countries, such as China, Abyssinia, Spain and Czechoslovakia.

For this purpose they have not attempted to prevent the conquest or dismemberment of these countries by force, without any pretence of international conference, such as even the imperfect Concert of Europe always utilised during the nineteenth century. There were no such serious discussions over the destruction of Czechoslovakia as there were over the boundaries of Bulgaria or of Albania in the generation before the war; there were only hurried conferences, under the threat of war, in which feeble attempts were made to save appearances while submitting to an act of violence. The pursuit of this policy of concession or "appeasement" has led to a very serious worsening of international relations, not only as compared with the ideal raised by the League of Nations, but as compared with the pre-war methods of the Concert of Europe.

Whatever the advocates of this policy may say, it has been an evident failure. It has not made peace secure: as is demonstrated by the feverish activity in armaments of this and other countries. It has not moderated the aggressive ambitions of the dictators, but has rather taught them that truculence and threats of war are the best means of getting their own way. It has not reduced their power of attack, but has greatly increased it. It has given to Germany the domination of Europe and encouraged Italy to hope that she will win mastery in the Mediterranean. It has caused all the lesser

FUTURE FOR DEMOCRACY

States of Europe to tremble for their future, and to lose all confidence in the leadership of Britain and France.

Is there any alternative method whereby peace and liberty can be made secure ? It might be possible to form an alliance to resist Germany and Italy, like the Grand Alliance against Louis XIV or the successive Coalitions which resisted Napoleon ; and, in the end, we may be driven to this. But it is a very undesirable method. It would again divide Europe into two hostile groups of powers, arming against one another. In effect, this condition of things already exists. A close alliance between Britain and France faces a close alliance between Germany and Italy ; we may see a competition developing between these rival alliances for the support of the eastern powers of Europe. There is little prospect of peace in such a grouping ; only a prospect of war, and of preparation for war—only a reproduction of the condition of things that existed before the Great War.

It would seem that the only hope of lasting peace lies in a return to the principles of the League of Nations. But the League has been broken. Not only does it now include only three of the seven great Powers : it is impossible to expect the lesser Powers, which are exposed to the danger of sudden attack, to accept such automatic and far-reaching obligations as those which are defined in Article XVI of the Covenant, and to impose even economic sanctions upon any aggressor

PEACE AND LIBERTY

at the demand of the Council of the League. It is necessary to recognise that the authority of the League cannot be re-established until the menace of war has been conjured away, and real peace has been re-established.

Is there, then, no hope of our being able to escape from the dreadful position into which we have been brought by the aggressions and the surrenders of the last five years? Must we go on drifting, waiting for the coming of war, and meanwhile squandering our substance upon preparation for it?

There is, perhaps, one method, as yet untried, which might lead to good results. It is that Britain and the British Dominions, and if possible also France and the United States, should do what they have never hitherto done: draw up and publish to the world a declaration of the principles of international policy which they are prepared to uphold, and invite all Governments, including the Governments of the totalitarian States, to define their attitude to these principles.

The principal elements in such a declaration might be somewhat as follows:—

(i) The very foundation of international order is respect for treaties or other obligations formally accepted. When a treaty stands in need of revision, the revision ought only to be made by agreement between the States concerned, or by an international conference in which all States whose interests are affected will have a place. One-sided repudiation of a

FUTURE FOR DEMOCRACY

treaty by any State is a crime against international order. It ought not to be condoned; it ought to be resisted by the civilised world.

(ii) In the relations between nations, all States, large or small, have equal rights, and no decisions affecting the interests of a State ought to be made without its being consulted. A claim made by one State which affects the independence or the territorial integrity of another State should always be submitted to an international conference, in which both the States concerned should be represented.

(iii) The precipitation of war, before all possible means of peaceful settlement have been exhausted, is a crime against humanity.

(iv) In order to avoid the outbreak of war, all disputes between nations should be submitted to some form of third-party judgment, either by arbitration, or by international conference, or by submission to the International Court or to the Council of the League of Nations. It is wrong that any nation, however powerful, should presume to be sole judge in its own cause.

(v) The supreme object of a sane international policy should be all-round disarmament, and the cessation of the insensate waste of resources that might be used for human betterment.

(vi) All those regions of the earth which are inhabited by backward peoples, and have not yet attained to the standing of autonomous States, should be administered in such a way as to protect the rights and advance the

PEACE AND LIBERTY

progress of their inhabitants, and to give access to their resources on equal terms to all the civilised peoples. This question, which affects all the future relations of the civilised and the backward peoples, ought to be the subject of an international conference, which should have regard not only to the territorial claims of Great Powers, but to the needs of all peoples, and in particular of the subject peoples.

(vii) For these principles of international policy, the signatory powers will use all their influence, and will take counsel together as to the means by which they can be enabled to prevail.

A declaration of this general tenor would clear the air. It would dispose of the widespread suspicion that the great democratic powers are prepared, in their fear of war, to bargain with the totalitarian powers for the destruction of lesser States in Europe, and for the transference to them of control over primitive peoples without considering their wishes and interests. It would commit those States which accepted it to demanding international conference in such a case as that of Czechoslovakia. It would probably be accepted by all the peace-loving powers, and perhaps also by the United States. It would not commit any of them to go to war, or even to impose economic sanctions, if any of the defined principles were broken. But it would indicate which of the peoples were in sympathy with common action for the prevention of aggression.

Within the group of signatories there would be

FUTURE FOR DEMOCRACY

some which would be ready, when the time came, to take or to threaten military action. If another case like that of Czechoslovakia arose—if, for example, Switzerland were threatened with absorption in the German Reich—there would be a demand for an international conference such as ought to have been made, but was not, before Czechoslovakia was destroyed; and if this were refused, there would be justification for military action, and for bringing into it as many Powers as were willing to join, so that while French and British armies and air-forces came directly to the aid of Switzerland, the aggressor would also be threatened by an attack in the East. Here would indeed be a justification for war: not merely the defence of a free State, but the defence of the principle that the crime of precipitating war must be prevented. And if it were known beforehand that in such an event military action would be taken, it is probable that the crime would not be perpetrated.

An elastic agreement of this kind, based upon clearly defined principles, would not be a military alliance against Germany or any other specific power; it would be an agreement to uphold these principles, an agreement that Germany or Italy would be free to join, if they were prepared to accept them; and it would be a step towards the establishment of a reconstituted League of Nations.

The lesser Powers, no doubt, would be reluctant to commit themselves even to a conditional undertaking

PEACE AND LIBERTY

to go to war in certain eventualities. But other Powers, once they were satisfied that Britain and France were really taking a clear lead for the establishment of definite principles, would be ready to accept such an undertaking, because they are themselves threatened: perhaps Russia, perhaps Poland, perhaps Rumania and Jugoslavia. How powerful a combination could thus be formed for the upholding of international right would only be discovered by negotiation. But the first step towards the formation of such a combination would be the issue of some such declaration of principle as has been defined, and a clear statement that the democratic powers meant to uphold it with all their strength, not even excluding the possibility of war in the last resort. For this war, if it came (and it would probably never come if the resolution of the peace-loving powers was made clear) would indeed be a war for the fundamental decencies of civilised existence.

2

It is not enough to insist upon the maintenance of sound principles in international relations and to make provision for enforcing them. It is also necessary to provide the means for the peaceful redress of legitimate grievances. In the condition of international anarchy to which we have drifted back during the last five years, the only way in which changes can be achieved is by the

FUTURE FOR DEMOCRACY

use or the threat of force. This does not yield justice. It only enables strong Powers, which are prepared to trade upon the universal dread of war, to get their own way.

A necessary pendant, therefore, to such a declaration of policy as had been suggested would be, not merely a vague declaration of readiness to join in the redress of grievances, but a clear indication of the way in which this task should be undertaken, and of the principles which should guide it, in the view of the Liberal powers. And, so far as is possible, the good faith of this policy of redress should be testified by action.

What are the grievances that stand in the way of a peaceful settlement? There are, in the first place, various territorial claims in Europe from which trouble may arise, such as the Polish corridor, and the racial problems that exist in all the countries of eastern and south-eastern Europe. It seems likely that Germany will use the existence of scattered German minorities as a justification for further acts of aggression, such as she was guilty of in the case of Czechoslovakia. All such cases ought to be determined by international conference; and the only means of ensuring that this method of settlement shall be used is that a powerful combination of States should be formed who would pledge themselves to insist upon its being used. A great opportunity of applying this principle was thrown away when the question of Czechoslovakia was settled under threat of force. Unless this principle is firmly

PEACE AND LIBERTY

upheld henceforward, there can be no hope of a peaceful order in Europe.

But the main problems of to-day, the main causes of the unrest from which the world is suffering, are economic, rather than political. The first of these is the problem of international trade. The totalitarian States have organised themselves as "closed economies", and in this basis are fighting to win economic domination over other markets. The democratic States have allowed themselves to drift far in the same direction. If this tendency continues, it will involve two things: first a denial to the peoples of the earth of full access to the abundance which the earth produces, or is capable of producing; and, secondly, a constant state of strife between these "closed economies", which must in the end lead to war. Is there any means by which this dangerous and destructive development can be checked or reversed?

The democratic countries have in their hands the power to deal effectively with this problem, if they will only combine to do so. Among them they control the richest parts of the earth's surface, and almost the whole of the tropical and sub-tropical lands. They include the great creditor-countries, which can supply the capital needed for the development of the undeveloped regions of the earth; and their refusal, by means of tariffs and quotas, to accept payment from their debtors in goods has been one of the chief causes of the dislocation of the world's trade. They control

FUTURE FOR DEMOCRACY

most of the world's supply of gold, and therefore have it in their power to bring about a restoration of the world's monetary system. Wielding all this power, they can, if they will, do much to re-establish the free movement of trade, and therefore to bring back prosperity. They can do this even if the dictators refuse to co-operate; but they cannot do it if they succumb to the temptation to imitate the dictators' methods, and strive after the false ideal of a "closed economy".

The leading statesmen of most of the democratic countries recognise the vital importance of a revival of world-trade. In America President Roosevelt, and his Secretary of State, Mr. Cordell Hull, are never tired of insisting that the removal or reduction of trade barriers would be the greatest contribution that could be made to the restoration of good relations between nations, and Mr. Hull has given practical evidence of his sincerity in the series of trade-treaties, culminating in the Anglo-American Agreement, which he has negotiated. The northern peoples of Europe, known as the Oslo group, have been striving towards this end. General Smuts has said that, since statesmen seem to be unable to find a way out of the political deadlock, they should try the economic approach, by removing the barriers to trade. This, he said, was the British way. It *used* to be the British way.

The method which has hitherto been most widely employed, and for which the largest claims have been made, is that of negotiating "bilateral" treaties, under

PEACE AND LIBERTY

which two countries undertake to give certain specified advantages to one another's trade. But the long series of British bilateral trade treaties has shown that this is a very ineffective method, and very difficult to carry out.

The negotiators of these treaties strive to secure equivalence between the concessions they give and those they receive, and this is almost impossible to arrange. What is more important, the negotiating countries are always bound by commercial treaties with other countries, which entitle these countries to receive the treatment of the "most favoured nation"; and all tariff concessions made by the two parties to one another must be automatically extended to all the countries with which they have commercial treaties. Unwilling to make concessions to other countries from which they receive nothing in return, the negotiators seek for articles which are more or less peculiar to themselves, and these are usually trivial. So they try to get round the "most-favoured nation" clause by promising to take fixed "quotas" of specified goods from one another: thus Britain promises to buy a defined amount of bacon from Denmark, and Denmark a defined amount of coal from Britain. In this way bilateral treaties have led to a great extension of the "quota" system, which is the most vicious form of trade restriction; they have therefore increased rather than diminished the complexity of the restrictions upon international trade.

FUTURE FOR DEMOCRACY

The distinction between the American trade-agreements and the bilateral treaties negotiated by other countries is that Mr. Hull does not try to evade the "most-favoured nation" clause, but rather welcomes it as a means of extending more widely the freeing of trade. He is not afraid of other countries taking advantage of the treaties and sending their goods to America, because he knows that, in the long run, they must take American goods in exchange. His bilateral treaties have therefore advanced the freeing of trade, while those of other countries have not.

But the co-operation of the free countries, and of all others that choose to join them, could achieve much more than this.

They could combine to establish a stable basis for international monetary exchange, and make it possible for all countries willing to join in the agreement to get rid of the exchange restrictions which have been amongst the most serious obstacles to trade. This would be an immense contribution to the restoration of a free flow of trade. Only the democratic countries have the financial strength which would make it possible.

They could agree to abolish "quotas" (the most vicious of the new-fangled obstacles) in their trading relations with one another, and with any other countries willing to join in the agreement.

Above all, they could agree to a gradual reduction of tariffs against one another, down to a maximum of (say) 10 per cent., and admit to the area of freer trade thus

PEACE AND LIBERTY

created all countries which would accept the conditions ; but they could individually reserve freedom as to the tariffs which they could impose upon countries not coming into the agreement.

There are a good many countries which are already prepared to join in an agreement of this sort, and the number would be increased as the benefits of the system became apparent. All countries could enjoy the advantages of this freer trade, if they were prepared to lower their own tariffs in accordance with the agreed scale ; and the plan would not tie the hands of any country which wished to reduce its tariffs further and faster than the rest.

This is a practical and a hopeful plan. It could begin with a few nations, and gradually expand. It could include the totalitarian States if, for the sake of prosperity, they were willing to abandon their system of "closed economy". It would be free from the difficulties that attend the negotiation of bilateral treaties ; for there would be no elaborate calculations as to the relative value of various "concessions", and no complicated equipoise of benefits, only an agreement to reduce tariffs all round by agreed percentages. And, being gradual in its operation, it would allow time for the necessary adjustments to a new system.

No doubt such a plan would necessitate compromises and adjustments, since it would involve co-operation between a number of countries with very different economic conditions. But it offers the best

FUTURE FOR DEMOCRACY

hope of progress towards the restoration of the free flow of trade, which alone can bring back prosperity and allay the economic fever that is largely responsible for political unrest. Above all, it offers a field in which the democratic powers can take the initiative towards the re-establishment of the system of liberty.

Many ardent free traders in Britain will regard these proposals as a betrayal of the cause in which they believe. They would prefer a complete reversal of the protectionist policy under which we have lived during these last disastrous years, and an immediate return to the unilateral free trade which Britain maintained before the war. They are convinced that, in a madly protectionist world, even unilateral free trade would be advantageous to Britain. But we have to think not only of the immediate advantage of Britain; we have to think of the means whereby prosperity, and with it peace, can be regained for the whole world; we have to think of the conversion of the world from the dangerous pursuit of national self-sufficiency, which is the ideal of the totalitarian States, to the free intercourse between peoples, which is the ideal of the system of liberty. Moreover, full freedom of trade could not now be restored in Britain at a single stroke without causing serious dislocation. It must be restored, as it was originally established, by stages. And these stages could be used, under the plan that has been outlined, to lead as many countries as possible in a progressive reduction of trade barriers.

PEACE AND LIBERTY

3

Closely related with the restoration of the flow of international trade is the question of colonies, which are regarded chiefly as the source of many raw materials. It is certainly within the power of the democratic States to find a just solution of this problem, since they control by far the largest part of the world's colonial territories.

The demand for colonies comes primarily from Germany, who lost all her colonies in the peace-settlement. Italy also is vociferous; and both she and Japan have tried to rectify their grievances by force. But these countries do not stand alone. Poland, for example, has been asserting her right to colonies. And although the Scandinavian countries are too modest to put forward claims, their industrial and commercial development would seem to give them a claim, if we take the view that no industrial country can be sure of getting the materials required for its industry unless it possesses colonies. On that view, every industrially developed country will have a claim, and an endless vista of claims and grievances will lie before us.

It is important to remember that these colonies, especially in Africa and the Pacific, were mostly acquired by the countries that possess them, without much effort or much expenditure of blood and money, during the last two decades of the nineteenth century. The Great Powers divided out these lands among themselves, by treaties made in European chancelleries, without con-

FUTURE FOR DEMOCRACY

sulting the native populations. They just drew more or less arbitrary lines upon the map—lines which often cut across tribal areas—and then proceeded to establish their administration in the areas thus defined. Britain, (though she already possessed a gigantic empire) got the richest share, partly because her traders and missionaries had been more active in these regions than those of other countries; but partly because it was assumed that she would pursue her traditional liberal policy of admitting on equal terms the traders of all nations. This policy she abandoned in 1932. France got, in area, an even larger share, but it included the barren lands of Sahara. Germany, entering the race late, got much less, and Italy less still, while Portugal and Spain were assigned large areas behind their decaying coastal settlements.

There can be no doubt that, in spite of some grave evils, this allocation of the backward regions to various civilised Powers was a good thing. It was a good thing for the civilised world, because it made available the vast resources, in such matters as rubber, vegetable oils, cocoa and various minerals, which these lands contained. It was, on the whole, a good thing for the native populations, who were stirred out of their age-long barbarism, and brought within the ambit of civilisation; there was an end of the incessant tribal warfare which had filled their history, and almost an end of the horrible iniquity of the slave-trade.

It would have been a still better thing if all these

PEACE AND LIBERTY

lands had been placed under the common guardianship of civilisation. That solution was actually contemplated when the International African Association was founded in 1880; but the scheme was wrecked by the greed of the Powers, who had been suddenly inspired by a desire for colonies. If the League of Nations had existed in 1884, when the Congress of Berlin met to decide the rules of the game of colonisation, all these lands might have been placed under its tutelage; and the principle of the open door for the traders of all countries, which had long been in operation in the British colonies, and was at Berlin laid down for the lands of the Congo basin, might have been made universally applicable.

When the war came to an end, France, Britain and the British Dominions divided among them all the German colonies in Africa and the Pacific, and all the former territories of the Turkish Empire, except Asia Minor and Arabia. Germany was thus left without colonies; and Italy got only a strip of torrid African territory known as Jubaland.

But France and Britain took these lands under the terms of "mandates" from the League of Nations—the first recognition of the concern of civilisation as a whole with these backward lands. The "mandates" provided that in the case of territories whose inhabitants seemed to be potentially capable of self-government, they should be trained and equipped, by the mandatory Power, to assume self-governing rights. This has been

FUTURE FOR DEMOCRACY

done, first by Britain in Iraq, and then by France in Syria. In the case of the more primitive peoples of Africa and the Pacific, it was laid down that the rights of the native population should be safeguarded, that they should not be enlisted for military service beyond what was necessary for local police purposes, and that there should be, in all mandated territories of this type, the “open door” for the traders of all nations.

These are wise and sound provisions; and if they had been applied to all colonial territories, the grievance about colonies would have had very little substance. They *were* applied in the British colonies—until 1932; indeed the mandatory system was based upon British colonial practice. If a genuine liberal spirit had reigned among the nations in 1918, the system might have been made to apply not only to the new conquests, but to the existing colonies.

The principles of the mandatory system represent, indeed, the only principles upon which such lands can justly be brought under European administration. They are the principles, not of ownership, but of trusteeship; trusteeship first on behalf of the inhabitants, whose rights ought to be protected, and who ought to be safeguarded against exploitation, and led gently into a civilised way of life; trusteeship, secondly, on behalf of the industrial countries, who need the materials that these countries provide, and who will in exchange for them provide the peoples who produce them with the material boons of civilisation.

PEACE AND LIBERTY

There are two reasons why Germany and other countries demand colonies, a reason of substance, and a reason of prestige. The reason of substance is that they want access to the materials they need, and markets in which to dispose of their own products. They also want lands in which their surplus population can settle; but this has no weight in regard to tropical lands in which Europeans cannot permanently dwell. As for access to materials, it is true that it is easier for a country to purchase materials in lands where its own currency circulates than in lands where it must acquire foreign money by the sale of its goods. But Germany's former colonies, even if they were all returned to her, are quite incapable of supplying all the materials she needs, or even a small part of them. She needs materials from all the tropical colonies, and, indeed, from all the world. She could satisfy this need, as she did before the war, if the barriers to trade were reduced or abolished, if all the tropical lands were open to her traders, and if she was not using all the foreign money she acquires to purchase war materials.

The second motive for demanding colonies is the desire for prestige, the desire to possess an "empire" and to splash patches of her colour on the map of the world. This is a powerful motive, especially among a people who are in such an excited state of nationalist sentiment as the Germans now are. But it does not provide a sufficient reason for handing over to the tender mercies of Nazi or Fascist administrators

FUTURE FOR DEMOCRACY

peoples for whose welfare the civilised world is responsible.

One of the most difficult and crucial problems of the future is the relations between the civilised and the backward peoples. It cannot be solved by the device of leaving them alone, for they are not yet ready for self-government. It can only be solved, so far ahead as we can see, on a principle of patient and understanding trusteeship. The ascendancy of the white man, which is still needed, can only be borne if it is identified with justice, kindness and the tolerance of primitive usages. Nothing has done more harm to the prestige of the white man among coloured peoples than the spectacle of what happened in Abyssinia, the only unconquered State of the coloured man, a State whose freedom and independence had been solemnly guaranteed, through its membership of the League of Nations, by all the great white societies. Any repetition or extension of these methods might have disastrous repercussions throughout Africa, and wherever the white man rules over coloured peoples.

There is no just solution to the claim of dominion based merely upon prestige. But there can be a solution of the claims of substance put forward by the dissatisfied countries. The solution would be that *all* lands not yet ripe for self-government, by whomsoever at present controlled, should be brought under the tutelage of civilisation as a whole, through mandates issued by the League of Nations or,

PEACE AND LIBERTY

perhaps, some other international authority. This does not mean that there need be any immediate transfer of responsibility for administration from the Powers that now exercise it; though it ought to mean that, on good cause shown, such transfers might take place in the future. But the conditions imposed by the mandates ought to be strengthened, especially so as to secure that opportunities for obtaining contracts and concessions should not be limited to citizens of the mandatory Power. The influence of the League in the administration of mandated territories ought to be increased; and while anything in the nature of international administration would probably work badly, some services, especially medical and scientific, might well be internationally recruited.

This would be the best attainable solution of the problem of colonies. It would facilitate the readjustment of boundaries, which is in many instances desirable. It would bring to an end the "imperialism" of the civilised over the backward peoples, and make it clear that the backward peoples were under the general tutelage of civilisation as a whole. It would satisfy the *substantial* grievances of the dissatisfied Powers, by giving them unimpeded access to markets and raw materials. It would also give them a reason for playing their part in an international system, sharing in the supervision of the colonial territories, and ensuring that their own traders received fair treatment.

FUTURE FOR DEMOCRACY

It is within the power of the democratic States not only to propose this system, but to bring it into operation, and in doing so to demonstrate the sincerity of their belief in a just international order, and to substitute for vague declarations of a readiness to redress grievances the demonstration of action. If Britain should desire to take the lead, she could do so to-morrow, by placing all her non-self-governing colonies under mandates of the League. And in doing so she would ease some of her own problems. For example, Egypt would find it easier to reconcile herself to British administration of the Soudan if it were carried on under a mandate from the League, of which Egypt herself is a member. For another example, Uganda and Kenya would then be on the same footing as Tanganyika; and the difficulty of organising some co-ordinating central authority for these colonies would be sensibly diminished.

It may well be that the colonising powers will be reluctant to take a step which would imply a diminution of their independent and sovereign power over their colonies. But they must choose between this and the necessity of facing the threatening demands of the totalitarian powers. If colonies are to be made a subject of bargaining and concession with the dictators, if they are to be treated as mere pawns in the game of power-politics, the result will be that wide lands will be handed over to the dictators; that within these areas a rigidly exclusive trade policy will be pursued;

PEACE AND LIBERTY

that the native populations will be recruited and drilled, as those of Eritrea and Italian Somaliland have been, to be used for attacks upon neighbouring territories; that the nightmare dread of wars of aggression will overhang Africa as it already overhangs Europe; and that aeroplanes and submarine bases will come into existence on the coasts of Africa, from which the commerce of the Atlantic and the Indian Ocean can be preyed upon.

A clear choice lies before us. Either the government of the backward peoples must be brought under international regulation, or, if unrestricted State sovereignty is to prevail in these regions, they will become the arenas of destructive wars of aggression. The choice has to be made by the democratic States. There is no doubt as to the alternative which their principles ought to dictate. If they adopt the method of international regulation, they will have satisfied the reasonable claims not only of the dictators, but of all the countries which have difficulty in obtaining materials which they need. And they will have made possible, in the future, when the system has been well established, a transfer of mandates wherever this may seem to be desirable.

In the foregoing pages an attempt has been made to outline in general terms the principles of a policy whereby peace based upon justice could be pursued. It would not be an easy policy to carry out; it would demand, on the one hand, a steady firmness in insisting that all international problems must be settled, not by

FUTURE FOR DEMOCRACY

force, but by discussion, and, on the other hand, a far-seeing attempt to lead the world towards a sounder and juster distribution of the world's economic resources. It may be that these methods would not avail to curb the aggressive intentions of the dictators. But if that is so, it is hard to see what alternative policy could do so, and we shall have to conclude that another great war is inevitable. Even so, the kind of policy outlined in this chapter, by bringing about both political and economic co-operation among the free and threatened States, would be the best preparation for that dreadful ordeal.

The defence of the system of liberty demands, however, more than a well conceived foreign policy. In the long run the system of liberty will be justified, and will survive, only if it gives to the people who accept it a happier and a more abundant life than dictatorship can offer them. And it is impossible to deny that the democratic countries are still far from being able to ensure to their peoples the free and full life which they ought to be able to enjoy. Their systems of government are not working well; their social systems are full of injustices and remediable ills.

The main necessity, therefore, if we are to be able to ensure that the future of civilisation shall be governed by the spirit of liberty, is that the peoples of all the free countries should overhaul and improve their government and their social organisation. Only so can we revive the flagging faith of the peoples in liberty, and

PEACE AND LIBERTY

regain something of the ardour that drove our fathers forward in the attempt to win it.

The bulk of this book is devoted, therefore, to this task of political and social reconstruction. But before we enter upon this theme, something must be said upon a subject which has almost been taken for granted in the present chapter—the importance of freedom of intercourse and trade between nations, as a means both of increasing their prosperity and of linking them together in friendship. It is not long since this was accepted as axiomatically true by the British people. The events of the last few years have undermined this once well-established conviction, and it has become necessary to repeat the argument.

CHAPTER III

FREEDOM OF TRADE

1

IN the last chapter it was contended that the most effective step which could be taken towards the establishment of peace would be the freeing of international trade from the shackles which now restrict it, because this would give to all peoples access to the abundance which the world offers them. We did not then examine the economic arguments for freedom of trade. But it is necessary to do so, because they are very generally disregarded.

The leading statesmen of nearly all countries now agree that a relaxation of trade restrictions is desirable. But they do nothing, or next to nothing, to bring it about. It appears that the restrictions to which they object are those of other countries, not their own. They regard any reduction of tariffs as a "sacrifice", and say they are willing to make "sacrifices" if other countries will do so. They seem to take the view that freedom of trade is advantageous to the world as a whole, but disadvantageous to each individual country.

Is it a sacrifice of the real interests of a nation to

FREEDOM OF TRADE

open its markets to the rest of the world? Or, to put the same question in another way, is it disadvantageous to a people to allow them to purchase freely all that the world has to offer at the lowest prices? The question deserves examination. For if it is true, or if it is generally believed to be true, that freedom of trade is detrimental to the nation that adopts it, the main argument of the last chapter will be overborne by national interests.

The answer to the question largely depends upon whether we are to regard peace or war as the normal relation between nations. In time of war, it is doubtless a handicap to any country that it should be dependent upon other countries for its necessary supplies, especially of foodstuffs and munitions of war. That is why, fearing war, nearly all countries have been striving after self-sufficiency; that is the reason for the plague of economic nationalism which has brought the world to the brink of ruin.

If, therefore, war is to be regarded as the normal state of things, and the intervals of so-called peace merely as times of preparation for the next war, it is inevitable that the countries which adopt this view should reject freedom of trade, and should carry the war-spirit into the periods of "peace". That is what protectionism means. It regards international trade not as a mutual exchange of benefits, but as a form of war, in which every nation is trying to beggar its neighbours, fighting for the control of markets, and

FUTURE FOR DEMOCRACY

at the same time developing its own resources so that it may be self-sufficient when real war begins again.

On the assumption that war is the normal state, and that all countries should be organised for war, it *is*—in most cases, though not in all—a sacrifice of the interests of a country to open its markets to its foreign competitors and potential enemies. This assumption seems to be made by the dictators. If the free countries allow themselves to accept it, there can be no hope of stable peace. Protectionism and war, freedom of trade and peace, are closely and causally related. Protectionism is made necessary by war, and keeps alive in intervals of peace the spirit that leads to war. On the other hand, peace can only be made secure in proportion as freedom of trade is established; and full freedom of trade will not be attained until the fear of war has been banished.

But even from the point of view of readiness for war, there are cases in which protectionism is dangerous. Take the case of Britain. Unless her population is enormously reduced, she can never be able even to feed her own people without supplies from over sea. At the most Britain cannot produce more than one-half of the food she requires; and the fact that she has her huge Empire to draw upon makes no difference in time of war, when all oversea supplies are equally liable to be interrupted by submarines and aeroplanes. If war is to be normal, Britain is doomed, sooner or

FREEDOM OF TRADE

later. That is why a secure system of peace is more vital to her than to any other country.

While the menace of war continues, what fiscal policy ought Britain, in these circumstances, to pursue? Her necessary foodstuffs are of two kinds. Some can be stored without damage, such as cereals and sugar. Others are perishable, and lose much of their virtue unless they are eaten fresh. As it happens, the soil and climate of Britain are specially suitable to the production of the perishable food-stuffs—milk, meat, poultry, eggs, fruit and vegetables—and she has a natural protection for these things, owing to the nearness of the great city markets. But her soil and climate are not so well suited for the production of wheat and sugar, which can be stored. Clearly, then, if war is anticipated, she ought to admit the storable foods at the lowest prices, and lay up great quantities of them. And she ought to stimulate in every possible way the production of the perishable foods, especially by allowing her farmers to get their necessary supplies—feeding-stuffs (which can be stored), fertilisers and machinery—at the lowest prices from the rest of the world.

Under the influence of the protectionist creed she is pursuing exactly the opposite policy. She is spending vast sums of public money in encouraging the use of the land for growing wheat and sugar; and she is, by means of tariffs and quotas, making feeding-stuffs, fertilisers and machinery dearer than they need be.

FUTURE FOR DEMOCRACY

Even if we are to prepare for war, a free trade policy would be, at all events for Britain, the soundest.

Take another illustration of the bearing of fiscal policy upon the danger of war. If Australia were involved in war, she would find it very difficult to defend her immense territory, because it is far too thinly populated, and the population is mostly concentrated in four big cities, which might be decimated by air attack. This dangerous condition of things is due to the fact that, by means of very high tariffs, she is striving to build up manufacturing industries. The cost of these tariffs falls mainly upon her primary industries, wool, wheat and mining, which are therefore prevented from expanding and filling up the country as rapidly as they might otherwise do. She is also, under the influence of protectionist ideas, restricting the entrance of immigrants. A freer admission of goods and men would bring a rapid development of her primary industries; and, as the population increased, the secondary industries would grow up naturally, in a far more healthy way than under the hothouse conditions by which they are now fostered.

Even if war is to be normal, therefore, it is by no means universally true that freedom of trade puts the country which adopts it at a disadvantage.

The theory that it is bad for a country to open its markets to the world is effectually refuted by the experience of Britain, even from the point of view of readiness for war. Her prosperity was, indeed, built

FREEDOM OF TRADE

up under “one-sided free trade”. It is often said that Britain could afford to adopt free trade in the last century, because she then had a monopoly of the new methods of machine-production. This is not true; she had, indeed, led the world in this sphere, but she had no monopoly. Before free trade was introduced, her manufacturers were complaining that they were being ruined by foreign competition. The value of her exports in 1846 (the year of the repeal of the Corn Laws) was actually less than it had been in 1815, and it was only after 1846 that the amazing expansion of her trade and industry took place.

Under the system of open markets, Britain rapidly became the centre of the world’s trade and finance. She won also an amazing preponderance in shipping. For a time she had to face keen competition from America, and, down to about 1865, there were more American than British ships to be seen in the Mersey. After the Civil War America adopted high protection, and her mercantile marine almost disappeared from the seas. Britain became the chief carrier of the world’s trade, and owned half of the world’s ships. This was what enabled her to maintain a supreme navy, and gave her command of the seas in time of war.

She was also enabled to play the chief part in developing the undeveloped regions of the earth, by building their railways and ports, equipping them with machinery, and advancing to them vast amounts of

FUTURE FOR DEMOCRACY

capital. She received her reward in a constant stream of their goods, by means of which the interest was paid on the capital lent to them. She is now striving to prevent these payments, by restricting the admission of the goods by means of which they are paid.

Finally, it was the system of open markets that gave to Britain such economic strength that she, alone among the belligerent peoples of Europe, was able to give financial support to her allies, and to stand the financial strain of the Great War. But for the financial strength of Britain, and her immense mercantile marine, the allies could not have won the war—and both of these pillars of strength were unquestionably due to freedom of trade.

In the case of Britain, at all events, though perhaps not in other cases, freedom of trade was a source of strength even in time of war.

But it is mere pessimism to assume that war is going to be the normal condition in the future. If we have to make that assumption, we may abandon hope for civilisation. It is by their effects in time of peace that the value of the two systems, freedom and restriction, must be judged.

2

The chief argument of those who oppose freedom of trade is that any country which admits foreign goods, especially manufactured goods, is thereby depriving its own people of work. If foreign goods are excluded,

FREEDOM OF TRADE

they contend, their equivalents will be made at home, and therefore there will be more employment: "Tariff Reform means work for all."

The argument is superficially plausible, but fundamentally fallacious. The answer to it is that imports have to be paid for, and can, in the long run, only be paid for in goods or services. If our people do not make the goods that are imported, they make the goods that go out to pay for them. The more foreign goods we buy, the harder we must work to pay for them.

It is true that particular industries which, for one reason or another, cannot compete favourably with corresponding industries in another country may be enabled to do so under the shelter of a tariff, because they will be able to charge higher prices. *In these industries*, therefore, employment will be increased. But it will be increased partly at the expense of the purchaser, and partly at the expense of other home industries. The purchaser will have to pay more for what he buys, and will therefore have less to spend upon other goods, with the result that there will be less employment in the industries producing these goods. Other home industries will lose the sales of their goods to the foreigner who would have bought them with the money he had got by the sale of his own goods. For we must not forget that the foreign importer will have been paid in British money, which is of no use to him in his own country. He can only

FUTURE FOR DEMOCRACY

exchange his British money for the money of his own country if he (or somebody to whom he transfers his British money) uses it to buy British goods for sale in his own country, or to pay debts due to British creditors. It follows that whenever we prevent foreign goods from being sold in this country, we prevent British goods from being bought, or debts due to British creditors from being paid.

Take a simple example. Sweden and Norway have a great advantage in the manufacture of certain kinds of paper, because in these countries the timber from which paper is made grows in abundance beside the water-power which is used to make it; whereas the British paper-maker has to bring his timber from distant countries, and has no cheap water-power. When the Swedes were allowed to send paper freely into this country,* they were paid in British money, which they spent on cotton goods or other commodities which we could produce better than they could. When we put a duty on Swedish paper, we no doubt enabled British paper-makers to employ more men in producing more expensive paper. But we deprived the British cotton-trade of sales which it would have made to Sweden, and therefore of employment; and we encouraged Sweden to increase her production of cotton goods.

* Newsprint is still admitted free, because it would have been dangerous to offend the newspapers, which know perfectly well that a duty would increase the price ; but other kinds of paper are taxed.

FREEDOM OF TRADE

In short, what the duty does is to transfer trade and employment, not from Sweden to Britain, but from a more efficient British industry which can compete with other countries to a less efficient industry which cannot do so without artificial aid. It prevents an advantageous exchange of a commodity which Sweden is specially qualified to produce for a commodity which Britain is specially qualified to produce. It makes British people pay more for their paper, and Swedish people pay more for their cotton goods. It therefore diminishes the power of both peoples to buy other goods which would employ other workers. The nett result is a transfer of employment from one industry to another in both countries, a decrease of the total amount of employment in both countries, and an increase in the cost of living in both countries.

Unfortunately, these results do not appear on the surface. The paper-makers in Britain *see* that protection has given them more work. The cotton manufacturers know that their sales have gone down, but cannot trace the reason.

The exchange between Britain and Sweden is a good illustration of the way in which freedom of trade helps to bring about a healthy “division of labour” between countries, each country producing the things it is best fitted to produce, and exchanging them for the things other countries are best fitted to produce. Surely it is better that Britain and Sweden should exchange their products than that each of them should waste

FUTURE FOR DEMOCRACY

labour and money in making things that the other can make better. Britain is not enriched, but impoverished, by shutting out Swedish goods.

We recognise this when it is a case of exchange of goods between two counties, say Lancashire and Yorkshire. We do not imagine that Lancashire would be better off if she were compelled to produce the woollen goods she now buys from Yorkshire. We realise that each county should do the things that it can do best. Why should it be different in the case of countries, merely because they have different flags on their public buildings? All England would be poorer if each county taxed goods coming from other counties; and the whole world is poorer because, in a fever of nationalism, its countries do this very thing.

The protectionist, however, insists that British industries will be ruined if we allow the country to be "flooded with cheap goods produced by underpaid labour". Strangely enough, the same argument for putting on tariffs is used by the countries which pay their labour badly. But what they fear is the competition of the highly skilled and highly paid labour of Britain and America.

The favourite example used in support of this argument is the competition of Japan, which has been producing very cheap (and rather shoddy) goods, and selling them especially in oversea markets such as India. What is the answer to this complaint?

In the first place, Japanese imports, like those from

FREEDOM OF TRADE

other countries, have to be paid for; and they can only be paid for, directly or indirectly, in goods or services. It is a curious fact that, before Britain adopted protection, she actually sold more goods to Japan than she bought from her.

Secondly, even if we exclude cheap goods from this country, we cannot exclude them from the rest of the world. If we are to retain the export trade by which we live, we must be able to sell our goods abroad. To acknowledge that we cannot compete even in our own market does not help us to do that. It is a throwing up of the sponge.

Thirdly, very cheap goods often create a taste for goods of better qualities. For example, cheap Japanese shoes are teaching Indian peasants to give up going barefoot; and this is saving them from the hookworm, which both harms and impoverishes them. When they find that these shoes wear out quickly, they will soon want better shoes.

Fourthly, if wages are low in Japan, part of the reason is that Japan cannot support her people from her own resources, and therefore *must* sell her goods abroad. Because she is shut out from so many markets, she has to keep down her prices, and therefore also her wages, in order to overleap the tariffs. If we prevent her from selling her goods, she will fight rather than starve. The only way to raise the level of Japanese wages (and thereby to make the Japanese people better customers) is to give her freedom to trade, and thus to

FUTURE FOR DEMOCRACY

become prosperous. For in all countries prosperity brings a rise of wages.

It is childish to suppose that Japan, or any other country, can go on exporting vast quantities of goods and taking nothing in exchange. The more she sells to Britain, the more she must buy from Britain, directly or indirectly. If she sends us cheap goods that our people could not otherwise afford to buy, and takes in exchange quality articles, such as motor cars or machinery, everybody will benefit.

We have examined from several points of view the theory that the admission of foreign goods causes unemployment. But this theory can be tested in a very direct way. We have the official government figures for imports on the one hand, and for unemployment on the other. If the protectionist theory is right, and foreign imports cause unemployment, we should expect to find that when foreign imports go up unemployment increases, and that when foreign imports go down unemployment decreases. Unless this happens, the protectionist theory must fall to the ground. Yet over a long series of years precisely the opposite happens. With extraordinary regularity, unemployment goes up when foreign imports go down, and down when foreign imports go up.

The point is so important that a few figures may be permissible. They are all official figures. I shall confine them, for the sake of brevity, to the post-war years, though the pre-war figures are equally conclusive.

FREEDOM OF TRADE

And since even protectionists must admit that increased imports of foodstuffs and raw materials are a sign of prosperity, I shall deal only with imports of manufactured goods, which the protectionist is specially anxious to exclude.

During the post-war "boom" of 1920, manufactured imports reached the record figure of £460 millions. In that year unemployment touched the low level of 2 *per cent.* In 1921 manufactured imports suddenly slumped to £240 millions. Unemployment as suddenly rose to 15 *per cent.* Between 1922 and 1929 manufactured imports rose gradually and irregularly to £330 millions. In the same years unemployment fell gradually and irregularly from 15 to 10 *per cent.* Between 1929 and 1932—at a time when protectionists were loudly asserting that Britain was being flooded with foreign goods—manufactured imports actually fell from £330 millions to £160 millions, while unemployment rose from 10 *per cent.* to 22 *per cent.* Between 1933 and 1937, in spite of the new protective duties, manufactured imports steadily increased to £275 millions; and unemployment steadily fell to 12 *per cent.*

These are very remarkable figures. I cannot imagine how the protectionist gets over them. They are absolutely conclusive. They show that, far from causing unemployment, an increase in the import of manufactured goods actually leads to a reduction of unemployment, and *vice versa*.

The reason is obvious to anyone who will think for

FUTURE FOR DEMOCRACY

a moment, and is not blinded by prejudice. Foreigners do not send us their goods for nothing. They expect to be paid; and in the long run they can only be paid in goods and services. Therefore the more goods we buy from other countries, the more goods we must produce in order to pay for them.

“But”, the protectionists say, “you must admit that Britain was compelled to abandon freedom of trade in 1932, and would have been ruined if she had not done so”. This assertion is widely accepted; it must be examined.

Two reasons were adduced for the abandonment of free trade. One was that, in times of acute depression, a country which offers an open market, as Britain did before 1932, is liable to become the dumping-ground for foreign goods; and it is asserted that this had happened in the years immediately preceding 1932. If this were true, it might justify emergency measures, but not a sudden and permanent reversal of national policy. But it is not true. Our total imports in 1931 were £360 millions *less*, and our imports of manufactured goods were £73 millions *less*, than they had been in 1929, which was a prosperous year. This does not look like wholesale dumping! The main protectionist argument is based upon a false statement. Yet people go on asserting it, and believing it.

The second reason was that tariffs were necessary “to redress the balance of trade”. A country is said to have a “favourable balance of trade” when the value of

FREEDOM OF TRADE

the goods and services it sells to the rest of the world is greater than the value of the goods and services it buys from the rest of the world, so that it has a profit on its total international transactions. Now it is true that for some years the supposed margin of profit on British oversea trade had been dwindling. But under free trade there had always been a profit or "favourable balance", until 1931, when a rather serious "adverse balance" was shown. The gradual decline had been due partly to the economic nationalism of the world, and partly to the fact that in 1925 we had fixed our money to gold at too high a level. The adverse balance of 1931 was due to the financial crisis of that year, and not to fiscal policy.

Protection was, however, adopted as a means of redressing the "adverse balance". But it utterly failed to do so. There has actually been an "adverse balance", according to the official estimates of the Board of Trade, in every year since protection was introduced, except 1935, when a small "favourable balance" was shown: and it would have disappeared if gold had been included in the accounts, as it ought to have been, and always had been until 1932.

In short, there had never been an "adverse balance" on our foreign trade account under free trade, before the financial crisis of 1931; and there has never been a "favourable balance" under protection. Even the much boasted trade revival which was taking place from 1933 to 1937 did not bring about a "favourable

FUTURE FOR DEMOCRACY

balance"; on the contrary, the "adverse balance" had become so serious by 1937 as to demonstrate the complete failure of the protectionist panacea.

A vast deal of nonsense has been talked about the balance of trade. But since the enemies of free trade have chosen to make this the basis of their attack, they must be content to accept the verdict of the facts.

So much for the argument that free trade was proved a failure in 1931. It is not only an unproved assertion, it is directly contradicted by the facts.

3

There are many who acknowledge that freedom of trade is the ideal, but contend that, in order to attain it, tariffs are necessary in order that they may be used as a weapon to beat down the tariffs of other countries. This argument carries weight with many who would otherwise be upholders of the system of liberty. Is this argument sound?

Even if it is true that tariffs can be used to beat down hostile tariffs, a country which opens its markets to the whole world has no need of this weapon. For, under the "most-favoured-nation" clause in its commercial treaties, it is entitled to the lowest tariff-rates which any country imposes, because it imposes no duties upon that country's goods. It can therefore safely leave the protectionist countries to fight one another on its behalf, knowing that it must have the advantages

FREEDOM OF TRADE

of every concession which they make to one another. If the tariff-wars of protectionist countries lead to reductions of duties (as they seldom do, and never without first inflicting serious damage), the free trade country will share in the good results without sharing in the damage.

But in actual fact tariffs for bargaining have always been a disappointment. They have usually led to an increase of the tariffs on both sides. That was the conclusion of the Balfour Committee on Trade and Industry, after a careful examination of the whole problem. That is the conclusion to which we are led by an examination of the experiments in tariff bargaining in which Britain has been engaged since she adopted protection. As we have already seen (p. 63), they have produced, after lengthy and complicated negotiations, only the most trivial results, and have at the same time added to the complexity of the obstacles to international trade. The Ottawa Agreements between the British nations had as their chief consequence an increase in the barriers between all the British nations and the rest of the world, and no material reduction of the barriers that impeded trade among the British nations themselves. As generally happens in such negotiations, Canada and Australia, with a bargain in prospect, greatly increased their tariffs in order to have "something to bargain with"; and, at the end of the bargaining, their tariffs were substantially higher than they had been two years before.

FUTURE FOR DEMOCRACY

Paradoxical as the statement may appear, freedom of trade is the best means of overcoming hostile tariffs. The manufacturers and traders of a country which keeps its markets open have the immense advantage of obtaining all their requirements, from every part of the world, at the lowest prices. They can thus produce their goods more cheaply, and in that way can often overleap hostile tariffs. This gives them an immense advantage over the manufacturers and traders of a country which fines its citizens heavily if they purchase their requirements abroad. Their costs of production are thereby increased—often to an extent which nullifies the protective effect of the tariff.

Clear thinking on this question would be greatly assisted if those who argue about it would recognise that freedom of trade means freedom for the citizens of the country which enjoys it to buy, without impediment, whatever they want wherever they can get it best and cheapest. It is a corollary of this that the foreigner must have freedom to send his goods to those who want to buy them; but the main thing is the freedom of the citizen, not the freedom of the foreigner. This system not only gives great advantages to producers; it also gives the boon of cheap living to the whole community. And this is the ultimate test of the two systems. The one system permits, and the other forbids, all citizens to enjoy without restriction the plenty which the world affords.

Some years ago, the League of Nations set on foot

FREEDOM OF TRADE

two distinct enquiries, which were entrusted to two different committees. The one was an enquiry into the comparative average level of tariffs in various countries; the other was an enquiry into the comparative average levels of wages in various countries. When the reports were published, a remarkable correspondence between them was observed. The countries with the highest tariffs in Europe had the lowest real wages, that is to say, the lowest wages measured by their purchasing power; while the countries with the lowest tariffs had the highest real wages. This does not apply to new countries like America or Australia, the immensity of whose natural resources to some extent compensates for the influence of their tariffs. But, in general, restriction of trade has the effect of reducing the livelihood of the workers.

It is clear, then, that freedom of trade is necessary if the abundance which the earth can supply is to be made available for its peoples. It is not, by itself, capable of fully attaining this great end; for, as we shall see in later chapters, much has to be done before we shall have brought about a just distribution of wealth. But freedom of trade is the essential foundation.

It is not possible, in this place, to deal adequately with the economic aspects of freedom of trade: they are more fully and more scientifically discussed in a book entitled *Tariffs: The Case Examined*, by a committee of economists under the Chairmanship of Sir William Beveridge.

FUTURE FOR DEMOCRACY

But one further effect of the system must be touched upon. Freedom of trade is the best safeguard against the rise of huge monopolies, or quasi-monopolies, which is one of the most perturbing features of the contemporary economic order. Behind the shelter of a high tariff, rings, combines, trusts and other organisations which aim at controlling production and prices in their own interest can, and do, easily come into existence, and obtain a dangerous degree of power over the life of the community. Under freedom of trade, they are exposed to the constant pressure of foreign competition, and their dangerous power is checked. Freedom of trade is not, as we shall see, enough by itself to keep this dangerous development under the necessary degree of control. But it is an essential contributory factor, and a means, therefore, of holding in check a serious menace to liberty.

4

While giving due weight to the economic aspects of freedom of trade, we must not disregard certain important political and moral aspects.

The more freely the current of trade flows between country and country, the more closely they will be knit together: they will learn to recognise their mutual dependence, and to realise that they are “members one of another”. The position of interdependence into which the whole world has now passed was the

FREEDOM OF TRADE

outcome of the relative freedom of trade which the world enjoyed before the Great War; and the divisions and distractions of to-day are largely due to the way in which economic nationalism has broken the innumerable threads of world-trade that bound the world together. Freedom of trade is the great fosterer of peace; it is the principal means by which the fabric of the coming world-society can be woven.

Again, democratic government, which is one of the most essential elements in a system of liberty, cannot work efficiently or justly unless it is saved from the danger of corruption. Under a protective system, in which whole trades may be ruined or made prosperous by an edict of government, it becomes the business of every trader to keep an eye upon the proceedings of government, and, if he can, to have the tariff system modified in his own interest. Powerful trade organisations come into being to protect the political interests of their trade, and raise large sums of money for this purpose. They may (as has happened in America) resort to organised lobbying, and even the direct bribery of representatives who are worth buying. Even if they do not do this (and it is proudly claimed that they have not yet begun to do it in Britain), they will subscribe large sums to the political party that promises to put on the tariffs they want; and they will finance the parliamentary expenses of members, who will become no longer, in any real sense, the representatives of their constituencies, but the represent-

FUTURE FOR DEMOCRACY

atives and spokesmen of the particular interests that finance them. There is no possible means of preventing this sort of indirect corruption, which must exist, in some degree, wherever a protectionist system exists; and its mere existence corrodes the democratic system. Only in one way can this corrupting influence be removed; freedom of trade, by putting an end to all arguing and bargaining about tariffs, ensures the purity of democracy, at all events in this field.

One of the virtues of a system of liberty is that it ought to cultivate among its citizens the habit of self-reliance. The system of protection encourages them to look to Government to safeguard them against the consequences of their own inefficiency. When they find that foreign competitors are getting the better of them, instead of asking why, and making their own methods more efficient, they go whining to Government, begging for a duty which will keep out foreign competition and leave the home consumer at their mercy. Freedom of trade, on the other hand, throws the producer on his own resources, and compels him to bear the consequences of his own failures. It stimulates self-reliance, which protection discourages; and thus strengthens the moral fibre of the nation.

The greatest and the most potent argument for freedom of trade is, indeed, the moral argument. I recall an eloquent speech which I heard, in May, 1931, from a man who is now an ornament of His Majesty's Government. He said that there might conceivably be

FREEDOM OF TRADE

economic arguments against free trade, though he did not know what they were; but, with his hand on his heart, he went on to declare that nothing could undermine or weaken the overwhelming force of the moral argument for freedom of trade, and that he would always be faithful to it, not because it paid, but because it was *right*. Within a year he was supporting the overthrow of free trade. I do not want to emulate the hypocrisy of this statement. But is it not true that the only sound rule of life, for nations as for individuals, is to do as you would be done by? Is it not also true that if this principle were generally observed by men and by nations, the world's distress would melt away? In trade matters, how would we wish other nations to treat us? Obviously we would like them to open their markets to us; and if we accept the duty of doing not as we *are* done by but as we *would be* done by, we should open our markets to them. Any nation that acts upon this principle is doing the best that it can for the well-being of the rest, and also for its own well-being.

On every ground, therefore, economic, political and moral, we are driven to the conclusion that if we want peace and prosperity we must strive for the utmost possible freedom of trade. It is not our purpose here to discuss the methods by which this aim can best be pursued; that subject has already been discussed in the last chapter.

It is evident that, in existing circumstances, progress

FUTURE FOR DEMOCRACY

must be slow and toilsome, because the Governments are not really in earnest. It will take a long time to undo the harm that has been done by the wave of economic nationalism which has swept over the world. All the more reason for recognising that the greatest need of the now interdependent world is a steady and purposeful advance towards freedom of trade. In this advance, Britain ought to take the lead, because of her traditions, because of her strategic economic position, and because the free movement of trade is more vital to her than to any other country. She is not likely to take the lead until she has a Government that genuinely believes in freedom of trade, and is resolute to pursue it.

CHAPTER IV

MACHINERY OF GOVERNMENT

1

IF the system of liberty is to be made safe, and enabled to resume its progress, the first necessity is that real peace should be established, and that the peoples of the earth should all be able to share in the abundance which the earth can offer. These needs we have discussed in the last two chapters.

The second necessity, to which we now turn, is to redeem democracy from the discredit into which it has latterly fallen, and to ensure that it works with efficiency and justice. Here we must limit our view to our own country: we cannot attempt to dictate, or even to suggest, the measures that may be needed in other countries, with different traditions and experience. But if we can make democracy more efficient and more just in our own country, we shall have done the best that is in our power, not only for ourselves, but for that large part of the world which looks to Britain for a lead.

The word democracy is used in two senses. In a strict sense, it means a form of government in which all citizens have a share of control over the conduct of

FUTURE FOR DEMOCRACY

their common affairs. In a broader and more generous sense, it means a way of social life, the chief characteristic of which is equality: not, of course, equality of natural gifts, and therefore not a mechanical equality of wealth (though gross disparities of fortune are incompatible with the spirit of democracy); but equality of rights, and equality of opportunity to make the best of each man's varying gifts. We are still far from having achieved democracy in this generous sense, though it would be stupid not to recognise that we have made great advances towards it during the last hundred years. To achieve it is the goal of the system of liberty; and the greater part of this book will be devoted to describing the social and economic changes which are necessary for its attainment.

In the present chapter, however, we are concerned with democracy in the narrower sense, as a form of government; and we deal with it at the outset because democratic government is the only instrument by means of which we can hope to produce a democratic social order.

There are many who are impatient of discussion about what they call "mere machinery", when what is most needed is social reconstruction. They fail to recognise that, unless the machinery is well designed, its output will be disappointing. We have to get the machinery of democratic government into sound working order if by its means we are to produce social democracy.

MACHINERY OF GOVERNMENT

There are many, also, who assert that a democratic system of government cannot produce a healthy social order. The Communists, in particular, take the paradoxical view that political democracy is not a help but a hindrance to the achievement of social democracy, and that real freedom can only be secured through an unflinching despotism, and the forcible suppression of differences of opinion.

As for the Fascists, they hold that freedom, whether political or social, is a will-o'-the-wisp, and that what men need is not liberty, but firmly enforced discipline. The system of liberty, which has deeply infected the more moderate forms of Socialism, is thus in sharp conflict with both forms of "totalitarianism."

The democratic system is to-day under a cloud, and no longer commands the unwavering belief which our fathers gave to it. It has been repudiated with contempt by the "totalitarian" countries; it has broken down in several countries which adopted it suddenly, and without training, immediately after the war; and even in the countries where it has been longest established it is the object of many criticisms. Naturally the criticisms of the dictators are the most pungent. We shall be wise to consider them seriously, for it is right to learn even from our enemies; they may help us to think clearly, and to recognise the defects that have to be overcome.

It is absurd, the dictators assert, to settle difficult questions by counting heads. Even if that were the

FUTURE FOR DEMOCRACY

democratic method, counting heads is better than breaking heads. But that is not the democratic method. The voters in a general election do not decide on particular points; it is always impossible to say whether there is a majority on any particular point or not. What they do is to select representatives with whose general point of view they sympathise, and leave them to discuss and decide. But the representatives whom they choose decide how the Government is to be formed. They also form a pool from which the Government is selected. The choice of representatives therefore decides the general character of the Government, and the main lines (but not the details) of the policy which it is to pursue. It is thus possible under democracy to get rid of an unsatisfactory Government without a violent upheaval; and this is always impossible under a dictatorship.

Again, the dictators assert that democracy destroys the unity of a nation, by splitting it into parties; whereas dictatorship avoids this danger by forcibly suppressing all parties but one. It is true that the working of parliamentary government depends upon organised parties, and that, if the party spirit becomes vehement and acrimonious, the end may be civil war, as in seventeenth century England and contemporary Spain. The system therefore requires tolerance of differences, and a readiness to accept the decision of a majority until it can be altered. That is why the temper that makes democracy possible is only gradually developed.

MACHINERY OF GOVERNMENT

But given the tolerance which allows to all serious bodies of opinion full opportunities of expression, and of winning their way by discussion and persuasion, a kind of unity results that is far stronger than can ever be got by dictation and force. This needful tolerance, however, will only grow up if there is real freedom of discussion, and if no honest body of opinion is silenced, either by force or by the working of an unfair system.

Yet again, the dictators say that democracy lends itself to illicit control by powerful sectional interests, which can dominate parties, and through them dictate national policy. There is a great deal of truth in this; and it becomes more true as the organisation of parties becomes more rigid. It cannot be denied that in this country the Conservative Party is dominated by the City and the big industrialists, and the Labour Party by the Trade Unions. But dictatorship offers no cure for this evil. The dictatorship of Germany is dominated by the interests of the army and of "big business"; that of Russia by the interests of the proletariat and the irresistible bureaucracy. It is impossible under a dictatorship, but possible under democracy, to overthrow a dominant interest without a violent upheaval.

Finally, the dictators say—and many believers in democracy ruefully agree—that democratic governments are apt to be inefficient, and that they cannot act promptly and firmly because they have to follow the waverings of public opinion.

Lord Baldwin gave some support to this view when,

FUTURE FOR DEMOCRACY

in advocating a huge scheme of rearmament, he said that it ought to have been undertaken two years earlier, but that this was impossible because at that date the people were so eager for peace. Even if this were true, it could not exonerate a Government from the duty of proposing what it believed to be necessary for national safety. But it was not true. What the people wanted was a steady League of Nations policy; and if they had been assured that rearmament was necessary for this purpose, they would have supported it, as they did in the election of 1935, when they thought such a policy was being pursued. This episode did not prove the inefficiency of democracy, but the wavering timidity of a particular Government.

Indeed, the chief ground for the assertion that democracy is inefficient is to be found in the contrast which has been presented during the last few years between the half-hearted vacillation of the leading democratic States, and the daring bravado of the dictatorships. The contrast has been poignant. But was it due to the inherent weakness of democracy, or to the timidity of particular Governments? In any case, there was some excuse for hesitancy in dealing with self-willed autocrats who were ready to take the risk of plunging the world into war in order to get their own way.

Before we characterise a system of government as inefficient, we must ask, Efficient *for what?* If the purpose for which the State exists is to carry into effect

MACHINERY OF GOVERNMENT

the will of an irresponsible master, or to remodel a nation according to the ideas of a party, dictatorship will no doubt be the more efficient method. But if the purpose for which the State exists is to foster the civilised virtues of justice, tolerance and mutual kindness among its people, and to cultivate good-neighbourly relations with other peoples, democracy need not fear comparison with dictatorship.

We may admit, however, that for certain purposes, and especially for firm and resolute action, democracy is apt to be less efficient than dictatorship. If this is the price we have to pay for liberty, it is a price worth paying. Nevertheless, there is no inherent reason why democracy should be inefficient; and we must consider by what means this defect of the system, so far as it exists, can be remedied.

2

In a dictatorial system, there is only one factor to be considered: the Government. In a democratic system there are two factors: the Government and the machinery for exercising criticism and control of it on behalf of the people—Parliament. The old distinction between the legislature and the executive has no longer much meaning; for the Government is now responsible both for legislation and for administration, subject to the criticism and control of Parliament, and (behind Parliament) of public opinion. We must ask ourselves, therefore, first whether in our system the Government

FUTURE FOR DEMOCRACY

is well organised for the performance of its duties, and secondly whether Parliament is well organised for its work.

The Government consists of two elements. First there is the Cabinet, which is the steering-wheel of State, and which consists of a group of about twenty Ministers—heads of departments of State—who are drawn from the strongest party in the House of Commons; so that the quality of its personnel depends upon the quality of the members elected to that house. Secondly, there is the bureaucracy of the Permanent Civil Service, for all of whose actions the Ministers of the various departments, and the Cabinet as a whole, are supposed to be responsible; but the functions of the Civil Service are so large that the Ministers cannot effectively control them.

It is often said that the powers of the executive (i.e., the Cabinet and the Civil Service) ought to be increased. This can only mean that they should be freer than they are now from any control by Parliament; or, in other words, that our system should be more nearly assimilated to that of the dictatorships. Those who take this view scarcely seem to realise how enormous, and how nearly uncontrolled, the powers of the executive already are. The Government wields all the prerogatives of the Crown, which are still very large. Thus it was possible for a Liberal Government, shortly before the war, to withdraw the British Fleet from the Mediterranean, leaving the defence of that sea to the

MACHINERY OF GOVERNMENT

French, and assuming a moral obligation to defend the French Atlantic coast if it should be attacked ; and this was done without consulting Parliament. Thus again, it was possible for a Labour Government, during a parliamentary recess, to withdraw our troops from the British zone on the Rhine. It is right that the Government should have these powers ; but it is important to realise that *it already has them*. Again, when a Government commands a party majority in the House of Commons, it can do almost what it likes in that House. It has, in effect, taken over from Parliament control over legislation and finance ; and as for administration, if any administrative act is challenged in Parliament, the challenge is voted down by the docile party majority.

Indeed, the growth of executive power in this country has been so great that it has in many ways impaired the liberties which we have cherished ; and the time has come for a new parliamentary resolution based upon the famous one which was carried in 1780 : "that the power of the Executive has increased, is increasing, and ought to be diminished". In Acts carried through Parliament by party majorities without serious discussion, powers have been given to the Ministers of this or that department (which really means the Civil Servants) to make regulations having the force of law, and to give judicial decisions, often in secret and without appeal, on a variety of matters affecting the daily life of the citizen. And the practice is growing

FUTURE FOR DEMOCRACY

up of conferring almost irresponsible power upon specially created bodies which cannot be overridden either by Parliament or by the Law Courts; such as the Unemployment Commission, which wields a high degree of authority over the unemployed, or the various Marketing Boards, which can, for example, impose a fine of £50 upon a farmer for selling cheap milk to poor people, or, by a sudden edict, deprive a whole group of people (such as the small potato salesmen) of their livelihood. It may be necessary to set up new authorities of this kind. But the exercise of their powers ought to be subject to effective criticism and control. The liberty of the subject, as it has been understood in the past, is being seriously invaded in these ways by the growth of the power of the executive.

No: if our Government is not efficient, it is not because its powers are inadequate. It is rather because its powers are so enormous, and so varied, that they cannot be well used without substantial reorganisation; and if the functions of the State go on increasing, as is inevitable, there will be a danger of complete breakdown. The instrument in which we put our trust for the reconstruction of our national life will be quite unable to carry out its task.

Consider the work of a British Cabinet—remembering that it consists of about twenty men, nearly all of whom are the responsible heads of great departments of State whose work is so exacting that it might well occupy all the time and thought of the ablest of men;

MACHINERY OF GOVERNMENT

remembering, secondly, that most of them are second-rate men, because our methods of election to Parliament do not supply any party with a sufficient number of first-rate men; remembering, finally, that all the members of the Cabinet are distracted by a multiplicity of calls upon their time, for all sorts of purposes, political and social.

In the fragments of time which its members can spare from their other duties, the Cabinet is responsible, first, for all the legislation submitted to Parliament; secondly, for raising and spending an income of nearly £1,000,000,000 a year, and for deciding how much is to be spent in each department and whether it is being wisely spent; thirdly, for trying to secure due co-ordination between the work of the various departments, for which they are individually responsible—there is no other organ save the Cabinet to exercise this important co-ordinating function. And, on the top of all this, the Cabinet, and only the Cabinet, is responsible for defining the general lines of national policy, at home and abroad, and for planning for the future. This ought to be the highest function of the supreme governing body of the nation; but for the most part it is crowded out by the overwhelming variety and range of the day-to-day work that has to be done. How can such a body, so over-loaded with responsibility, find time for the unhurried thinking that is needed? A body of twenty archangels could not perform the work which a British Cabinet light-heartedly undertakes.

FUTURE FOR DEMOCRACY

Is there any way in which this situation could be amended, and the supreme Cabinet, while still in contact with all the main departments of government, be disengaged from the daily routine of administrative work, and given freedom for its highest task, that of guiding and co-ordinating the policy of the nation as a whole?

The only definite proposals for this purpose which have yet been made were put forward, at the end of the war, by the Haldane Commission on the Machinery of Government; but singularly little attention has been given to them. The suggestions which follow are based upon them.

The Ministers in charge of departments should be grouped in sub-cabinets, each dealing with a large field of policy: imperial affairs, defence, economic policy, the social services, for examples. It should be the business of each of these sub-cabinets to co-ordinate the work of their various departments, to review their policy as a whole, to draft new legislation that might be required, and, in general, to prepare clearly considered plans for submission to the supreme Cabinet. Each sub-cabinet would have a Chairman, who would be in touch with all the departments of the group, but would not be responsible for administrative detail in any of them.

Only the Chairman, not the other members of these sub-cabinets, would be included in the supreme Cabinet, which would thus be reduced to about ten members,

MACHINERY OF GOVERNMENT

more or less free from detailed administrative work, yet having contact with the whole range of government activities; and free to devote themselves to the consideration of the broad issues of national policy, and to think ahead and plan for the future. Such a system would greatly increase the efficiency of our Government; and it would especially facilitate the important duties of planning, which necessarily fall upon a modern Government. We shall deal more fully with this aspect of the subject in a later chapter (Chap. VI).

During the war it was found necessary, as a means of securing efficiency, to set up a small War Cabinet whose members were disengaged from the details of departmental work, while the ordinary ministers carried on independently the regular work of their departments. This was well enough in war-time; it secured the concentration of a group of able minds on the overriding needs of the war. In peace-time such a method would not do, because it would leave the departments unco-ordinated and uncontrolled. The method we have suggested, while leaving the supreme Cabinet more or less free from the mass of detail, and able to concentrate its attention upon broad issues of policy, would keep it in touch with all the departments, whose work would be co-ordinated, far more efficiently than is now possible, through the sub-cabinets. By these means we might hope to get an efficient system of central control, capable of directing the affairs of the nation in a period of many-sided reconstruction.

FUTURE FOR DEMOCRACY

3

We have still to consider the other side of the democratic system of government, the side of it that justifies the use of the term democratic—namely, the criticism and control of the Government exercised by Parliament on behalf of the nation. There are some who regard this function with impatience, as a restriction of the power of Government that leads to inefficiency. They are the people who talk about the necessity of increasing the power of the Executive. But criticism does not cause inefficiency; it is rather the means of ensuring efficiency; and unless the function of criticism is well performed, the work of government will suffer.

There are three functions which Parliament serves in our system. In the first place, the election of representatives enables the people to feel that the Government is *their* Government, and not a power that controls them from without; and it ought therefore to diffuse throughout the community a sense of responsibility for the common weal. Whether it succeeds in doing so or not depends upon two things: in the first place the electors must feel that their votes really count, and that they have a real freedom of choice; in the second place they must feel that the representatives they elect do genuinely control the Government. On both of these points there is to-day a good deal of justified scepticism, which is the main reason for the undermining of belief in the democratic system.

The second function of Parliament is to serve as a

MACHINERY OF GOVERNMENT

reservoir from which the actual personnel of the Government is drawn, and to determine from which school of thought it shall be drawn. For this purpose it is essential that the representative body should include as many men and women of first-class ability as possible, and that it should fairly represent the balance of opinion in the country; for if a school of thought that is definitely in a minority should succeed, by some accident of the electoral system, in getting control of the enormous powers of Government, confidence in the democratic system will be still further undermined. Under our present method of election, this has repeatedly happened.

The third function of Parliament is to criticise and control the work of the Government.

(1) It has to examine closely, and amend where necessary, the legislative proposals of the Government, a duty which is all the more important because the overworked Cabinet cannot possibly consider fully all the proposals which it puts forward—most commonly on the advice of its Permanent Officials.

(2) It has to scrutinise the gigantic expenditure of the nation, and see that the money is not wasted; it has to satisfy itself that the proposals for raising the necessary funds are just and well-devised; and it is through the control over finance which it is supposed to exercise that the supremacy of Parliament is secured.

(3) It has to supervise the whole work of administration, see that it is efficiently and economically done.

FUTURE FOR DEMOCRACY

and make sure that the enormous powers vested in the Cabinet and the Civil Service are not abused, or made the means of restricting the real liberties of the people.

(4) Finally, it has to survey and discuss the general lines of policy which the Government is pursuing at home and abroad, and make sure that it is aiming at ends with which the sentiment and convictions of the people are in accord.

These are immensely important functions. They are what distinguishes a democratic from a dictatorial system. If they are not well and seriously performed, democracy will become a sham, as the dictators say it is. Now there is no doubt that our Governments are responsive to public opinion—perhaps, sometimes, too responsive to momentary gusts of opinion. But Governments of different complexions are apt to be responsive to different sections of opinion; that is one reason why it is important that every solid body of opinion should be fairly represented in Parliament, so that due weight may be given to it.

There is, however, a growing misgiving that none of the three functions we have defined is adequately performed by Parliament as it is now constituted; and that is why the prestige of Parliament, and therefore of democratic government, is declining. If we are to be able to feel confidence in our system of government as an instrument for producing national well-being, it is not only necessary that the supreme organs of government should be made more efficient, it is at least equally

MACHINERY OF GOVERNMENT

necessary that the authority and prestige of Parliament should be fully restored.

There is a growing political apathy among our people, which shows itself in very numerous abstentions in elections. It is not due to a real apathy about politics, since few fail to realise the momentous importance of the issues by which we are faced. It springs rather from a distrust of the way in which the business of politics is carried on, a dislike of "party politicians", a feeling that the proceedings of Parliament are unreal, and that all its decisions are foregone conclusions, a feeling that the right to vote is of little value, and that nothing of importance can be achieved by its means. These ideas may be unreasonable, but they exist; and if they continue to spread, the outlook for democracy is gloomy. Is there any justification for them?

The existence of widespread apathy—an apathy so great that in a recent series of by-elections fifty per cent. of the electors failed to use their votes—is a very perturbing fact, which needs to be seriously studied. It seems to be due to two main factors: first, to the way in which the electoral system works; and secondly to a growing distrust of the rigidity of party organisation.

We elect our representatives mainly in single-member constituencies, in which the candidate who gets the largest number of votes—even if his supporters form a definite minority of those voting—is declared elected; and all votes not given to the winner are of no avail.

FUTURE FOR DEMOCRACY

Under this system no candidate has any chance unless he is supported by a highly organised party machine, which is very costly to maintain; so that the money-power counts for far more than it ought to do in a democratic system. The choice of the electors is limited to two or three candidates. These candidates are nearly always party nominees. The party organisations are reluctant to nominate anybody who will not "sign on the dotted line", and promise to support the party caucus through thick and thin. The elector is therefore narrowly limited in his choice; he votes for a party, rather than for a man. This limitation is ensured by the provision that any candidate who does not poll one-eighth of the votes will be fined £150. This is a severe punishment for expressing the opinions of possibly 5,000 citizens.

An intelligent elector may well feel that he cannot both agree with and respect any of the candidates. Instead of choosing the best possible representative to take part in the discussion of national affairs, the elector usually finds that all he can do is to give his support to one or other of two parties, with neither of which he may agree; and this tends to accentuate the rigidity of parties, against which many are in revolt.

One of the consequences of this system is that wavering bodies of voters, who can be influenced by stunts or panics, exercise an undue weight, and Governments allow their policy to be influenced by the hope of catching this section of the electorate.

MACHINERY OF GOVERNMENT

Another consequence of the system is that it is quite possible for a party which is supported by a minority of votes to obtain a large majority in Parliament, and thereby to obtain control of the almost dictatorial powers wielded by the Government. Every election becomes a gamble; and the managers of party caucuses like this system because it gives them a chance of obtaining a majority on a minority vote, and carrying out policies which the nation as a whole does not approve.

It is not surprising that this system is gradually undermining belief in democracy. When a majority of the electors feel that their votes have had no effect at all in determining the course of national policy; when the elector's choice is limited to two or possibly three candidates, with none of whom he may have any sympathy; when he realises that the most that he can do is to help to confer upon one or other of two party caucuses the immense powers of Government; and when he sees that Parliament is filled with second-rate men who owe their places to their party docility, while first-rate men who could make real contributions to the discussion of great affairs are excluded; it is not surprising that he should contemptuously abstain from voting, or use his vote merely *against* the party that he most dislikes, instead of *for* the principles in which he believes.

Nor is it surprising that there should be a growing dislike of the rigidity of party distinctions and of the

FUTURE FOR DEMOCRACY

excessive powers wielded by party caucuses. The existing electoral system almost forbids the existence of more than two parties. This was well enough in the nineteenth century, when candidates declared themselves either in favour of change or against change, but reserved a large freedom of discussion when they reached Parliament, so that parliamentary debates counted for a great deal, and determined the fate of measures and of Governments. Nowadays party discipline is far more rigid, and a member who shows too much independence is liable to find his political career brought suddenly to an end; debates in Parliament are made unreal, and their results are foregone conclusions.

The truth is that two parties *cannot* express the variations of opinion that must exist in a free community, unless they are far more elastic than they have become during the last two generations. It is absurd that the nation should be divided into those who believe in the public ownership of the means of production, and those who believe in the restriction of oversea trade; for intelligent people may believe in neither of these things, or in both. What are such people to do when they are limited to a choice between these two things?

There is for these reasons a growing dissatisfaction with parties and party politicians; and this is dangerous, because parties are necessary for the working of parliamentary democracy. This dissatisfaction has shown

MACHINERY OF GOVERNMENT

itself in the support given to a Government that calls itself “National”, and claims to include all parties, though it is completely dominated by one party. It shows itself, also, in the demand for a United Front among all who differ from this Government; but the existing electoral system makes such an agreement impracticable. It was practicable in France only because France has a different electoral system, which includes the second ballot.

How are these difficulties, which are undermining belief in democracy, and may threaten its survival, to be overcome?

In some continental countries (notably democratic Germany) an attempt was made to overcome them by the system known as *scrutin de liste*, which requires the elector to vote, not for individuals, but for “party lists”, in very large constituencies: for every quota of votes given to a party, one of its candidates (beginning at the top of the list) was declared elected. This ensured the representation of all bodies of opinion in proportion to their strength. But it encouraged the multiplication of parties, and increased their rigidity and the difficulty of co-operation between them. For these reasons it worked badly, and perhaps helped to bring about the breakdown of democracy in Germany.

Another system, known as the Single Transferable Vote, has been used with great success in three countries —Denmark, Tasmania, and the Irish Free State. Under this system, the country is divided into big

FUTURE FOR DEMOCRACY

constituencies with three or more members apiece. The elector has only one vote, but he can indicate his preference by marking the figures 1, 2, 3, etc., opposite the names of the candidates he prefers; if the candidate of his first choice gets more votes than he needs for election, or has no chance of being returned, the vote is transferred to the second choice, and so on. Thus every vote counts.

In this system, the elector has a considerable range of choice, and he genuinely votes for a man, not merely for a party. The parties, also, become less rigid, because they are bound to put forward candidates of varying shades of opinion, in the hope of getting the second or third preference of members of other parties. Under this system, moreover, men of distinction have a greatly improved chance of election, since they will be elected if they obtain (for example) more than one-sixth of the votes cast in a five-member constituency; and the absurdity of excluding most of the leaders of a powerful party (which happened to the Liberal Party in 1918 and 1924, and to the Labour Party in 1931) will be avoided.

Every vote cast will count, helping to return, if not the elector's first choice, then his second or third choice. The balance of opinion in the country will be fairly reflected in Parliament, and it will be impossible for a party with a minority of votes in the country to get a large majority in Parliament, as the Conservatives did in 1922. The number of parties is not likely to be

MACHINERY OF GOVERNMENT

increased, because every candidate, in the hope of getting a large vote, will be likely to associate himself with one of the major parties. But the parties are likely to become more elastic, as they were in the nineteenth century, and, therefore, co-operation between them will become easier.

It is said, by critics of this system, that it would prevent the return of large majorities, and therefore make Governments unstable, and liable to frequent change, as in France—where, by the way, this system does not exist. But this result has not followed in the countries which have adopted the system: in Ireland, for example, Mr. Cosgrave's Government lasted for ten years, and Mr. De Valera's Government (whether you like it or not) is at least stable.

Even if the result of an election on this system were to produce a balance of parties (such as was produced under the present system in 1923 and 1929), it would be possible for two parties to co-operate with self-respect in carrying out an agreed policy. The present system makes this almost impossible, because the members of the co-operating parties know that their allies are constantly engaged in trying to unseat them in the single-member constituencies; in multi-member constituencies there would be room for both. Thus two parties could present their own cases without compromise in the constituencies, and at the same time, without loss of self-respect, co-operate on an agreed programme in Parliament.

FUTURE FOR DEMOCRACY

A further result of this system would be that it would bring to an end the violent “swings of the pendulum” which mark the present system, and which are incompatible with continuity of policy. Though elections would, of course, produce changes, they would not produce such sweeping changes either of personnel or of policy as have been common in the last fifty years. For that reason, Governments would be less likely to use the weapon of dissolution, or the threat of using it, as a means of bringing Parliament to heel; the almost unqualified domination over Parliament which recent Governments have exercised would be reduced; and the debates in Parliament would therefore become more real, and its criticism would be less easily overridden or disregarded.

A change in the electoral system of the kind we have described is essential if democracy is to regain the respect it has largely forfeited, if the authority of Parliament is to be saved from atrophy, if the efficiency of Government is to be maintained through the criticism that it always needs, and if the machinery of democratic government is to be made an efficient instrument for the production of social democracy.

MACHINERY OF GOVERNMENT

should be reformed. The House of Commons has in theory so many things to do that in practice many of them are neglected. It discusses Bills, and often makes substantial amendments to them, but some of the most important Bills, on the plea of lack of time, are carried under the "guillotine", and many of their most important clauses pass without any discussion at all.

Almost without realising what it is doing because of the rush of business, Parliament confers upon the departments very great powers of subordinate legislation; and the huge mass of orders and regulations issued under these powers which closely affect the ordinary life of the citizen, are practically never discussed at all.

In theory Parliament has to approve in detail all the estimates of all the departments; but the time allowed for the estimates is devoted to discussions on matters of general policy; no estimate has ever been reduced by the House of Commons during the present century; and, in effect, the work of the bureaucracy is never surveyed or criticised at all.

Lack of time is pleaded as an excuse for all this. Yet the visitor to the galleries of the House on many nights sees a mere handful of members taking turns to make dreary and repetitive speeches to which nobody pays serious attention; and even on the nights of big debates, everybody knows that the result of a debate is usually a foregone conclusion, especially when the

FUTURE FOR DEMOCRACY

Government possesses an overwhelming and disciplined majority.

The House of Commons must be saved from these reproaches if it is to regain the respect of the nation. Its procedure must be made more businesslike. Like the municipal bodies, it must do most of its work through Committees: not only legislative Committees to discuss the details of Bills, but Committees to review the work of the various departments of State, to criticise the estimates in detail, with the aid of experts, and to review the great body of subordinate legislation that the departments are constantly issuing.

Even with these changes, the House of Commons could not adequately meet the growing demands upon it. It needs to be supplemented by an efficient Second Chamber.

It is sometimes urged that a Second Chamber is needed as a safeguard against rash and revolutionary change not desired by the nation. There may be some substance in this argument when (as under the existing electoral system) a minority of only 38 per cent. of those voting (and possibly only 20 per cent. of the total electorate) can obtain a sweeping majority in the House of Commons. But if, as we have urged, the House of Commons were made truly representative of the nation, this risk would disappear.

It is not for any such reason that a Second Chamber is needed, but to give fuller consideration to many measures which the House of Commons has no time to

MACHINERY OF GOVERNMENT

discuss. But it must be a true Second Chamber, definitely subordinate to the First Chamber, and unlikely to come into conflict with it.

The House of Lords can never meet this need: first, because it is a hereditary body, and a hereditary legislative body is an intolerable anomaly in a democratic system; and, secondly, because it is permanently controlled by a single political party. The House of Lords, as it exists, must disappear; and in any Second Chamber which may take its place, there must be no hereditary element.

There are several ways in which a good Second Chamber might be constituted; but probably the best would be that most of its members, perhaps 200 in number, should be elected on a proportional basis by each new House of Commons, not, of course, from its own membership, but from the nation at large; while a smaller number of *ex-officio* members—former ministers of State, ex-governors, heads of universities and representatives of the great professions, might be added. This would yield a Chamber which would contain many men of distinction, but which would at the same time reflect the balance of opinion in the House of Commons. The powers of the Second Chamber should be as definitely limited as those of the House of Lords now are; and in case of deadlock, there should be a joint session.

It may be worth while to indicate the value of the work which a Second Chamber thus constituted could

FUTURE FOR DEMOCRACY

perform. In the first place, it could be an arena for very valuable discussions on questions of general policy—as, indeed, the House of Lords now is. In the second place, it could ensure a more adequate discussion of legislative proposals than is now possible. The Bills that come before the House of Commons are, broadly, of two types: first, party measures of a controversial character, which occupy most of the time of the House during the first part of each session, while the second part is mainly devoted to financial business; and, secondly, departmental or non-controversial measures, which often pass almost without discussion, though they always need it.

If we had an efficient Second Chamber, it could discuss the non-controversial measures in the first half of the Session; and, in the second half, while the House of Commons was engrossed in financial business, it could revise and reconsider the controversial measures, large parts of which often emerge from the House of Commons without having been seriously discussed at all. This would mean that vitally important work would no longer be neglected, as it now often is.

But more than this is necessary, if the nation's business is to be efficiently carried on in a period of reconstruction. A single Parliament cannot do all that needs to be done. There is no country in the world (except Japan, which is not a democracy) in which the affairs of so large a population are under the charge of a single Parliament; and the British Parlia-

MACHINERY OF GOVERNMENT

ment has also to deal with the affairs of a large number of dependent Colonies and Protectorates. The United States, for example, has forty-six subordinate legislatures for local affairs, and all the British Dominions have their State or provincial Parliaments.

The result is that in this country centralisation is carried much too far. We have already one subordinate Parliament, that of Northern Ireland. We need others, in Scotland and Wales, to reflect and preserve the distinctive national characteristics of these two countries. And we should gain much if, for various purposes, England could be split up into a series of Provinces, each with its own subordinate legislature, dealing with its own regional problems.

The subject is too large to be fully discussed here. But as the functions of Government increase, it becomes more and more necessary that there should be a large degree of regional devolution. Another kind of devolution—"functional" devolution, for example for the control of industry, may also prove to be necessary. But to pursue this question would take us beyond the range of immediate practical politics.

In the meantime, it is enough to say that, if our system of government is to be made adequate for the increasing demands that are made upon it, if it is not to break down under the strain, we must contemplate a courageous policy of devolution as a means of relieving the intolerable strain upon the Imperial Parliament and Government.

FUTURE FOR DEMOCRACY

In the present chapter we have been reviewing the machinery through which we shall have to work in striving after the creation of a genuinely free society. In succeeding chapters the magnitude of the work that has to be done will be reviewed; and the more it is studied, the more clear it will become that the existing machinery of government is not adequate for the task.

This is an aspect of the problem of reconstruction to which too little attention is paid by those who are eager to set on foot at once a complete reorganisation of our whole social system. That can no doubt be done, in a crude fashion, under a dictatorial regime such as has been established in Russia or Germany. It cannot be done under a democracy unless the machinery of democracy is overhauled and made efficient.

NOTE.—In this chapter a large and complicated problem is discussed in a highly condensed and desiccated manner. The subject is more fully dealt with in a volume entitled *How Britain is Governed*, by Ramsay Muir.

CHAPTER V

EDUCATION OF DEMOCRACY

1

THE chief difficulty of the democratic system is that it can only work well among a people who have been to some extent trained to use it. Certain habits of mind—public spirit, a readiness to tolerate differences, a willingness to accept with good humour the decisions of a majority until they can be changed—must be widespread among them. They must not be unbending doctrinaires, or put themselves into the hands of such people. They must be willing to accept compromises.

It is doubtless because centuries of training in self-government have made these qualities commoner among the British people than among others that democracy works better in this country than in countries where it has been established without any such preparation. After a series of violent and destructive revolutions, the French also have learnt the futility of violence, and the necessity of tolerance and compromise. We must not be surprised if the mere passing of enactments empowering everybody to mark crosses on ballot-papers does not instantaneously create the

FUTURE FOR DEMOCRACY

democratic spirit and the capacity for self-government. These are the product of education.

But they are not the product solely of formal education in schools and colleges. That is important, as we shall presently see; but it is not the most valuable element in the training of a people for democracy.

Far more important is the habit of self-government in small things: in the management of churches and chapels, of clubs and societies of various types, of trade unions and co-operative societies, wherein people learn to discuss their differences without losing their tempers, and to reach decisions that represent the greatest common measure of agreement. Institutions of this kind are more abundant in Britain than anywhere else.

When the goddess Proserpine returned to the earth, a crop of violets grew wherever her foot had trodden. Wherever the Englishman plants his foot, there is a prolific growth of committees. They waste a great deal of time, and the work could no doubt be more efficiently done by competent officials. But they implant in the minds of their members the habit of settling questions by discussion and agreement, and the belief that they are pursuing a common purpose.

Here is the vital importance of "freedom of association" as an element in the system of liberty: the more free and independent associations there are in a country the more rooted will the habit of self-government become.

Here also is the value of allowing voluntary bodies

EDUCATION OF DEMOCRACY

to assume the responsibility of performing various public or semi-public functions, such as the management of hospitals—so long as they do their work well, and do not hamper the organisation of necessary public services. The more people voluntarily organise themselves in groups for the rendering of common services, the deeper strike the roots of self-government.

There is a real danger in the rapid growth of bureaucracy, or management by competent whole-time officials, because it weakens the sense of common responsibility. One of the great problems of democracy is the problem of getting the best out of bureaucracy without weakening public control, or undermining the ordinary citizen's sense of responsibility for the common weal. In many spheres the Permanent Official is becoming too independent and too little controlled.

If it is to work well, however, democracy needs not only the opportunity of practising self-government on the small scale, it needs instruction upon the broad issues upon which it has to decide, both in local and in national affairs.

It gets this, in part, through the constant strife of parties. Perhaps the most valuable function of political parties is to be found in the educational work which they undertake, and in the incessant ventilation of different points of view. Naturally this teaching is apt to be biased, often it is deliberately misleading. But so long as all sides are fairly heard, this corrects itself in some degree.

FUTURE FOR DEMOCRACY

It is a defect of the existing system in this country that it discourages the educational work of the political parties. For there are many constituencies in which one party is so preponderant that either there is no contest, or its result is a foregone conclusion. In these circumstances, political discussion is reduced to a minimum, because the preponderant party does not need to carry it on, since it can in any event count upon its cohorts of faithful voters; while the other parties, having no hope of victory, give up in despair the attempt to convert the electors.

Under a different system, such as was advocated in the last chapter, this lassitude would disappear. In a constituency with (say) five members, in which each elector had only one vote, every party would have a chance of winning at least one seat, every convert's vote would count, and it would be worth while to carry on the work of political education with unflagging energy. A change of this kind would ensure that political discussion would become keen and zealous in every part of the country; and the electors would be awakened from the dangerous apathy into which they have fallen.

Apathy is, indeed, the greatest danger of the democracies to-day. It is the outcome, not of indifference, but of bewilderment; and bewilderment is due, not only to the difficulty of the problems that face us, but to the lack of political education.

The elector who "takes no interest in politics", yet

EDUCATION OF DEMOCRACY

casts an ignorant vote at an election, is a danger to the country. If his apathy cannot be cured, it should be penalised. It could be easily penalised if it were provided that, while everybody was entitled to have his name placed on the electoral roll, nobody's name should appear there unless he had taken the slight trouble of making a personal application, not during the excitement of an election, but before the electoral roll was drawn up. Those who failed to cast their votes in any election might be struck off the roll, and put to the slight trouble of making a fresh personal application. This would have the advantage that only those who put some value upon the privilege of the franchise would be able to exercise it; the large numbers of indifferent and frivolous voters who can only be herded to the polling booths by stunts or panics would disfranchise themselves; and the decision would lie with those who took their civic rights and duties with some seriousness.

The apathy of the electorate is often blamed upon the popular press, which is the chief means of public instruction, and which nowadays pays little attention to politics, except in moments of crisis. Gone are the days when speeches of political leaders were printed in full, and attentively read by the greater part of a more limited electorate. That was a splendid means of political education; it made political controversy the chief interest of the country. But it is unfair to lay all the blame upon the popular press. Newspapers print

FUTURE FOR DEMOCRACY

what their readers want to read; and their neglect of serious politics is the consequence rather than the cause of public apathy. When by other means political interest has been reawakened, the newspapers will treat politics more seriously.

But there is another feature of the modern press which demands attention, in view of the importance of the press as the chief vehicle of political instruction. While the circulation of the leading newspapers has immensely increased, their number, and therefore the variety of the points of view which they express, has woefully declined; and most of them have fallen under the control of big combines, dominated by millionaire press magnates. This especially applies to what are called the "national" newspapers, because their gigantic circulations are spread over the whole country. These magnates—Lord Rothermere, Lord Beaverbrook, Lord Camrose—dictate the opinions which their newspapers are to impress upon the public, and wield a very dangerous degree of power. They can blanket, by complete silence or misrepresentation, opinions which they dislike. They can distort the movement of public opinion to suit the interests of the class which they represent. It is true that the readers of these widely circulated papers often do not submit to their influence, and perhaps do not even read the political directions which they give. But it is none the less a dangerous thing that great wealth should command such power over public opinion. Some remedy will have to be

EDUCATION OF DEMOCRACY

found for this evil. The only effective remedy, in the long run, would be the development of strong currents of opinion, to which, for the sake of their circulations, the newspaper magnates would have to pay deference.

The work of political education is, however, not limited to the great newspapers. It is carried on by a multitude of lesser organs, many of which are maintained for the purpose of expounding particular points of view, and are often run at a loss. Indeed, there is no point of view, however unpopular and however weakly supported, which in this free country cannot and does not maintain its own organ, if its supporters are in earnest. And it is possible, it is even likely, that in mass the influence upon the moulding of opinion which is wielded by these lesser and often obscure organs is actually greater than that of the "national" newspapers with their gigantic circulations. For the readers of these papers go to them for political guidance, and pass on the thoughts they get from them to their fellows in the workshop, the club or the train; whereas the majority of the readers of the "national" papers seem to buy them largely to get racing tips, or news of crimes, or football results. It is of vital importance to the political health of democracy that this many-sided ferment of ideas should continue.

Finally, a very potent means of political education has grown up during the last few years in the broadcasting system. Broadcasting can be an organ of

FUTURE FOR DEMOCRACY

despotism, as the dictators have shown. It can also be a very powerful organ of liberty, and upon the whole it has been so used in this country. It has done invaluable service by bringing to the hearths of the people well-informed talks and discussions on political subjects of a non-party kind, as well as statements from all sides on subjects of current controversy. By these means it is to some extent replacing the platform as an instrument of political education, and it is cultivating among the people a non-party temper which is in conflict with the rigid party divisions encouraged by the electoral system.

The danger of the British broadcasting system is that, being centralised and under the ultimate control of the State, it might easily be used, as it has been used by the dictators, to impress the governmental view upon the electors. It is not possible in this country, as it is in America, for a particular school of thought (if it commands the means) to "buy time" on one of a number of rival broadcasting systems, and thus reach the ear of the public. The British system is commendably impartial. But it is impartial only as between accepted and recognised schools of thought. It cannot be used to build up a powerful body of opinion, as the American system was used, for example, by Father Coughlin. Incessant watchfulness is needed if this powerful new means of creating public opinion is not to be abused.

EDUCATION OF DEMOCRACY

2

The regular “system” of education for young people and adolescents, which is in the main organised and supported by the State, is, when all is said, the principal means of preparing the body of citizens to play their parts as members of a democratic society.

It is, in truth, in the schools and the universities that the real foundations of a genuine democracy must be laid. Nothing creates and fosters social differences more effectually than differences of education. Perhaps the most profound social cleavage that still exists in Britain is, not the distinction between rich and poor, but the distinction between those who have and those who have not enjoyed what is called a Public School education. The products of the great Public Schools form a minute proportion of the nation. But they used to be emphatically the governing class in Britain. And they still fill nearly all the most important positions. Examine the educational background of the Cabinet, the Houses of Parliament, the Civil Services—at home, in India and elsewhere—the bench of Bishops, the medical and legal professions, the principal officers of great Banks and trading companies, the most influential members of municipal bodies throughout the country, in short all the controlling and directing personnel of the nation: you will find that an extraordinarily high proportion of them have been educated at Public Schools, and subsequently at Oxford and Cambridge.

Some would say that this shows how far we still are

FUTURE FOR DEMOCRACY

from genuine democracy; they might go on to contend that the Public Schools (which are not under public control, and therefore really ought to be called Private Schools) ought to be abolished, and that all boys and girls ought (as in America) to go through the regular course of elementary and secondary training provided by the State.

But this is mere foolishness. The ascendancy of the Public Schools is no doubt due in part to the fact that they are the training grounds of the children of the rich and of the upper middle class, in part to the strength of an old tradition which causes a preference to be given, other things being equal, to the Public School boy, and in part to that clannishness which is satirised in jokes about the "old school tie", and which tends to turn the products of the Public Schools into a sort of separate caste. But it is still more due to the fact that the Public Schools, which are peculiarly English, and have no real analogies in any other country, do in fact give to their pupils something that is of value, over and above their formal education.

Much may be said in criticism of the educational methods of the Public Schools, though these have changed greatly. But they have somehow spread the often fine traditions and standards of honour of the old aristocratic ruling class over a great part of the nation. They train their pupils to accept responsibility, and to exercise leadership. They cultivate a fine public spirit, a readiness to subordinate oneself to something

EDUCATION OF DEMOCRACY

greater than oneself; it may be within narrow bounds, but so far as it goes, this is a fine quality. They create among most of their pupils a real sense of equality, though there may be great differences in their fortunes and social backgrounds; and give birth to a certain confidence in facing the world, easily and without false shame. All these are good things; and even if they are to some extent vitiated by a spirit of caste, they can be valuable contributions to the moulding of a genuine democracy. No sensible person would wish to undervalue, still less to destroy, these good things; rather he would wish that they should if possible be extended to the wider educational system which has been growing up during the last generation.

But the main reason for the continuing ascendancy of the Public Schools is that, until a very short time ago, they offered almost the only opportunity which this country afforded of getting a reasonably good education. Apart from the Public Schools, there were, forty years ago, only a number of decaying and under-equipped old grammar schools, and a large number of wholly inadequate private venture schools, to supplement the elementary schools, in which, at that date, nothing was offered but a rudimentary training, ceasing at the age of 14, and conveyed by largely untrained and overburdened teachers using mass-production methods in huge classes.

Since then very great changes have taken place. Under the act of 1902, a vast number of Secondary

FUTURE FOR DEMOCRACY

Schools, maintained by public funds, have been established in every part of the country; and about half of their pupils are drawn from the elementary schools and educated without fee. The magnitude of this change is indicated by the fact that in Oxford and Cambridge, which used to be the almost exclusive preserves of the Public Schools, more than half of the students are products of the new Secondary Schools. Moreover, during the last generation, eight new universities have been established, and the University of London, once a mere examining board, has become one of the greatest centres of teaching and research in the world. All these universities are filled with students who come partly from the Public Schools, but mainly from the new secondary schools. In these ways a great deal of the nation's brain-power, previously neglected, has been brought into training. But for these remarkable developments, it may well be doubted whether Britain could have stood the strain of the Great War, with its unprecedented demand for scientific equipment.

With those changes, Britain took a long step towards democracy in the educational field. The first products of the new secondary schools and the new universities are only now coming to the age at which they will be able to take the positions of leadership that their abilities deserve; and, as time passes, the preponderance of the Public Schools may be expected to diminish steadily.

EDUCATION OF DEMOCRACY

But there is much yet to be done. The number of the secondary schools still needs to be greatly increased, and the character of the training they give has to be improved. They are still too bookish, too much dominated by examinations. They must give more attention to the training of their pupils' characters, and of their bodies, as well as of their minds.

We are now entering upon the third main stage in the development of a national system of education. The first came with the establishment of universal elementary education, on a very inadequate plan, in 1870. The second came with the development of the new secondary schools and of the new universities, in the first decade of the twentieth century. The third stage, if it is rightly developed, will complete the structure of a genuinely democratic system.

Under the plan known as the Hadow scheme, elementary education is to cease at about the age of 11, and thereafter all children are to receive, for three or four, and possibly ere long for five years, varied types of secondary training. The success of the scheme depends upon extending the period of compulsory school attendance to at least the age of 15, so as to permit of a properly planned four years' course; but as yet the extension to 15 has been grudgingly made, and the pupils may leave school at 14 if they have a prospect of what is called "beneficial employment". These exceptions must be swept away as soon as possible, and if the poverty of the parents make this

FUTURE FOR DEMOCRACY

difficult, maintenance allowances must be given to save the children from being forced into industrial occupations before their training has been completed. Later it may be possible to raise the school-leaving age to 16. That is probably as high as it should ever be fixed by law; for the great majority of boys and girls, if they have not a strong intellectual bent, are beginning by that age to be weary of schooling, and will learn more by taking up the work to which their lives are going to be devoted.

When this new plan is fully in operation, all the children of the nation, at the age of 11 or thereabouts, will pass either into secondary schools of what may be called the High School level, where they will normally remain until they are 18 and ready for a university; or they will pass into secondary schools of very varied types, which we will call Intermediate Schools, and in which they will remain until they are 15 or 16, following courses of different types, adjusted to their different abilities, and coloured by the kind of careers into which they are likely to enter. Although the courses will be different from those of the High Schools, the standards of teaching and equipment, and the size of the classes, must be equivalent to those of the High Schools.

Then, and not until then, shall we have a truly democratic system of education, which will give to every child the chance of making the most and the best of his individual powers, while the way will be made easy for

EDUCATION OF DEMOCRACY

those with exceptional gifts to rise to whatever positions their abilities fit them for.

We see, then, shaping itself before our eyes, the outline of a national system suited for the training of a democratic society. But as this national system develops, there are certain features of it which we must anxiously watch.

In the first place, we must beware lest it is made too systematic, too uniform, so as to crush out individuality and make our people and their ideas all of a pattern. This is the natural temptation of the managers of a publicly controlled and publicly financed system. Such a result may be desirable in the eyes of dictatorship; it is destructive of democracy, which cherishes individual personality. To avoid this risk, we must sedulously encourage every kind of experimental school, and leave to the teachers of all schools as much freedom as possible.

In the second place, we must see to it that the children are not merely stuffed with book-learning in preparation for examinations, but that they are trained to think for themselves. We must see to it, also, that their bodies as well as their minds are trained, that they learn to use their hands and eyes, and that they receive physical training and medical supervision during their growing years, such as will stand them in good stead throughout their lives. Finally, we must see to it that all the schools find the means of training the characters of their pupils, not merely—perhaps not at all—by

FUTURE FOR DEMOCRACY

inculcating sound doctrine, but by habituating them to accept responsibility, and to be ashamed of falling below a standard of honourable conduct, as the Public Schools have in a large degree succeeded in doing.

Only if our educational system succeeds in doing all these things can we hope to produce a citizenry capable of rising to the high challenge of democracy, capable of taking pride in the duties as well as in the rights of citizenship.

3

The conflict between democracy and dictatorship, between the system of liberty and the system of servitude, is largely a conflict of ideas; and ideas are in the long run the most powerful of all the forces that influence the life of man. The dictators know this, and use every means in their power to indoctrinate their subjects with their ideas, and to safeguard them against the infection of liberty. Beyond their own borders, also, they use quite unscrupulously every means of propaganda.

The democratic countries, and in particular Britain, do nothing of the sort. Not only do they abstain from propaganda in other countries, they do not even try to bring home to their own peoples the significance and value of the system of liberty. There are in this country organisations which exist for the purpose of propagating the ideals of the "totalitarian" States, the ideals of Communism, the ideals of Fascism; and for

EDUCATION OF DEMOCRACY

this purpose they use to the full the freedom of the press and of speech which the systems they advocate would deny. Nobody in this country has ever suggested that these enemies of the system of liberty should be deprived of the liberty they want to destroy; so long as they do not foment open disorder, we leave them to say what they will. Even the task of answering them is not officially undertaken. It is left to the political parties, if they care to take up the task; and the political parties are so much occupied in running one another down that they can spare no time for defending or explaining the fundamentals of our own system, on which they all more or less agree. It seems to be assumed that the system of liberty stands in no need of defence.

Is this a sound view? May there not be a danger that in a time of disillusion and bewilderment, many may be ready to listen to the teachings of dictatorship, especially when they see dictatorship exultant and triumphant, and democracy cringing and apologetic? Is it not important that our people should be made to realise what are the vital elements in the system of liberty, and how easily they may be lost? This is not a subject upon which there need be any quarrel between the political parties, though they may differ as to the ways in which the system of liberty should be developed and expanded. A shrewd American commentator has noted that the foreigner's difficulty in understanding British politics arises from the fact that there are in

FUTURE FOR DEMOCRACY

Britain three Liberal parties, the Conservative Party, the Labour Party, and the Liberal Party; and so far as concerns the maintenance of the essentials of liberty, the judgment is true.

Is it right that the future citizens who will have to uphold and extend our liberties should leave school without ever having been told what the essential elements in these liberties really are, and what are the main contrasts between our system and the other systems with which it may easily find itself in conflict? Yet we make no provision for such teaching, though no doubt some teachers give it indirectly and incidentally in the course of lessons on history. If such a thing were proposed, the criticism would probably be made that teachers would be tempted to use the opportunity to impress their own political views upon their pupils. Would it matter very much if they did? Many of them doubtless do this already in a hundred indirect ways.

It would not be difficult, in a few lessons, to make clear even to young children of thirteen or fourteen the main characteristics of the system of liberty, broadly as they were set forth in the first chapter of this book, and to contrast with them the practice of the countries which have abandoned liberty. This could be done without acrimony, as a simple statement of facts. It would not be difficult to draw up a scheme of lessons and a textbook, suitable for young people in secondary schools of both types, on the development of liberty in its various aspects during the modern age,

EDUCATION OF DEMOCRACY

and on the reasons for the reaction against it. Nor would it be difficult for the universities—all of them—to provide a short course of lectures by some lecturer of distinction and to throw the lectures open, without fee, to all students.

We have an Empire Day, widely observed in the schools, in which, very rightly, we sing the praises of the British Empire, the cement of which is liberty. That is an excellent thing, so long as it is done modestly and without braggadocio. But why should we not also have a Liberty Day, on which all the schools and colleges in the Empire would combine to sing the praises of liberty, and to be reminded what it means, how it was won, and perhaps—why not?—how it needs to be made more real?

Democracy needs to be educated. It needs, above all, to be taught to realise what its liberties mean. If that can be done, there need be no fear of apathy.

CHAPTER VI

SOCIAL REORGANISATION

HAVING considered how peace—the necessary background of a free society—can be made secure, and how the world's abundance can be made available for all its peoples; having next considered how the machinery of democratic government can be made more efficient and more just, and how the people should be educated for democracy: we next turn to our main theme, which will occupy our attention in the remainder of this book. What sort of social reorganisation is necessary if the positive conditions of liberty are to be created, and poverty and drudgery banished from the lives of our citizens?

I

At once we are faced by a preliminary and fundamental question. It is frequently asserted, almost as an axiom, that “Capitalism” has broken down, and that, therefore, this country and all countries must establish a new economic order; it is also asserted that this new order must be Socialism.

SOCIAL REORGANISATION

The proof of the breakdown of “Capitalism” is found in the present condition of the world, in the overhanging dread of war, in the armies of unemployed workers, in the wanton destruction of foodstuffs when millions are hungry, and in the cruel contrast between great wealth and grinding poverty. It is assumed that these conditions are due to “Capitalism”. It is also assumed, without any possibility of proof, that they would immediately disappear under Socialism.

But is it not clear that most of these conditions are not due to an economic system at all, but to the mistaken policy of Governments? It is true that they came about while what is called “Capitalism” existed in all countries. But it is equally true that they came about while democracy existed in nearly all countries, and while nationalism was acute in most countries. Might we not, with equal logical validity, put all the blame upon democracy (as the dictators do) or upon nationalism as others do?

The question whether “Capitalism” has broken down or not is very difficult to answer, until we know what meaning we are to put upon the word “capitalism”. With the word “Socialism” we know more or less where we are, because Socialism is a theory of economic organisation which has never been fully put into practice. “Capitalism” is not a theory of economic organisation, but a way of managing things that has been slowly growing up during centuries, and that undergoes constant change, so that the “Capitalism” of

FUTURE FOR DEMOCRACY

to-day is unrecognisably different from the “Capitalism” of a hundred years ago.

What do those who pronounce the failure of “Capitalism” actually mean by the word?

Do they mean the whole existing economic system? The existing system does not correspond with any theory. It is the outcome of an endless series of experiments, and it includes every possible variety of method: direct State control, as in the post-office; municipal control; control by statutory bodies not working for profits, as in the Port of London Authority and the Electricity Board; control by great concerns such as the Railway Companies, which are under a high degree of State regulation; control by consumers, as in the Co-operative Societies; control by trading companies, subject to the Companies Acts, which can be (and have been) altered and made stiffer; control by private capitalists not subject to the Companies Acts, such as the small plumber’s shop.

For a hundred years we have been gradually working out the forms of control that are most suitable for different purposes. Is it this variety of method which the critics of “Capitalism” condemn? I think not. They approve of some of these methods, of direct state control, of municipal control, of statutory bodies, of co-operative societies; and they do not strongly disapprove of the pure capitalism of the plumber’s shop.

What they really dislike is the immense power,

SOCIAL REORGANISATION

sometimes verging on monopoly, of the directors of gigantic concerns, even though this power is regulated, and might be more fully regulated, by law. They dislike especially the assumption that industry, and all the profits accruing from it, are the exclusive property of the shareholders, who take no active part in working the concerns in which their money is invested. We shall have to consider this problem in a later chapter. But can it fairly be said that these methods have “broken down”, or are responsible for the present state of the world?

The main object of attack, however, is what is called the “profit-motive”: the pursuit of private profit as the driving force of industrial enterprise. The critics believe that social health will not be attained until the “profit-motive” has been banished, because they think that the quest of profit is wrong in itself. It is difficult to believe that the desire for profits, which has actuated man since history began, is really the cause of all the evils from which the world is suffering. But even if we are sceptical on this head, the theory that profit-making (or rather, profit-seeking) is the root of all evil deserves respectful examination, since it is held by so many honest men.

We may possibly hesitate to accept this view outright when we reflect that at all times almost all men (except saints and slaves) have been stimulated to enterprise, and encouraged to take the risks from which progress comes, by the hope of profit for them-

FUTURE FOR DEMOCRACY

selves and their families; and that the amazing increase of productive power which marked the last century, and has brought us within sight of the banishment of poverty, was unquestionably due to the ebullient energy of individuals largely inspired by the "profit-motive". We may wonder whether so universal a motive can, in fact, be eradicated; and whether, if it were eradicated, there might not be a dangerous decrease of the energy that men throw into the work of production, which is seldom alluring in itself. We are often told that in the noblest of human occupations, such as the pursuit of knowledge, men are not driven by the desire for profits. To some extent this is true, because these occupations are worth pursuing for their own sakes, which is seldom, and only partially, the case in wealth-making activities. Yet even the pure scholar gets some stimulus from the hope of making a better livelihood for himself and his family.

Unquestionably there are some modes of profit-making which are indefensible and socially harmful, such as the abuse of a monopoly position, or the making of secret agreements among producers to keep up prices at the expense of the consumer, or the payment of needlessly large increments of wealth to idle shareholders who have done nothing to earn them, or to owners of land who have done nothing to increase its value. It ought not to be impossible to find means of checking these illicit profits without eliminating the profit-motive altogether; and in

SOCIAL REORGANISATION

later chapters we shall consider how this can be done.

But the “profit-motive” simply cannot be eliminated from industry. The making of a profit is, in fact, the proof of success in production. That must be so even in a Socialist State: we expect the Post Office to show a profit, and would condemn its administration if it failed to do so. Socialists are fond of drawing a sharp contrast between “production for profit” and “production for use”. It is an unreal antithesis. Production for profit always *is* production for use, since nobody can make a profit unless people buy and use the things which he produces. Moreover, profit is the proper reward for taking risks. Unless people are prepared to take risks, there can be no progress; and they won’t take risks unless they see the chance of making profits. The stimulus of anticipated profits is essential for the encouragement of enterprise. This stimulus ought to be far more widely used than it now is: and one of the main arguments for systems of profit-sharing among workers is that it will stimulate them to enterprise.

Another reason which is adduced for the supposed breakdown of “Capitalism” is that “Capitalism” is based upon private enterprise; and it is held that the decision as to what goods should be produced ought not to be left to private persons, but ought to be made by the State on behalf of the community. In other words, all productive enterprises should be State-

FUTURE FOR DEMOCRACY

controlled monopolies. But the plain fact is that the initiative from which progress springs always comes from individuals. It would be a gross denial of liberty to forbid the exercise of initiative to all but those who wield the power of the State. No doubt the State must always make itself responsible for activities which private enterprise does not, or cannot, adequately carry on, such as the provision of education. But freedom of enterprise is an essential element in the system of liberty, and must be preserved if progress is to continue.

In a system of pure "Capitalism" the owners of capital would exercise absolute and unlimited control over all the activities for which their capital was used. Such a system has never existed. We have departed far from it. We recognise that not only the owners of capital, but still more those who work with brain and hand exercise initiative, and have a right to a share of control. We recognise, also, that it is the duty of the State to regulate, in the interests of the community, the ways in which free enterprise may work. A watch needs both a mainspring and a regulator. It will not go well unless it has both. The mainspring, which makes it go, is freedom of enterprise. The regulator is supplied by the State; and it is foolish to expect the regulator to play the part of the mainspring.

"Capitalism" has not broken down, because no such thing exists. What does exist is a mixed system,

SOCIAL REORGANISATION

partly under various forms of public or semi-public control, mainly under private control, but all subject to State regulation. Human affairs cannot be managed in accordance with any abstract theory, or *ism*; certainly not in the system of liberty. We may well differ as to the extent to which State regulation should be carried, and as to the forms which it should assume. But if we are going to preserve the system of liberty, we must refuse to submit to any doctrinaire *ism*; we must leave that sort of thing to the "totalitarian" States; and we must preserve the freedom of experiment, the variety of methods of organisation, which we now have. We must at all costs preserve freedom of enterprise, and allow the "profit-motive" still to operate, subject to the regulations of the State.

2

In the confusion and turmoil of these latter years, there have been many demands, from intelligent people, for what they call a Planned Economy, to take the place of the haphazard methods which seem to them to have plunged us into chaos.

The most nearly perfect examples of fully Planned Economy are the "totalitarian" States, in which autocratic Governments wield absolute control over the minds, bodies and estates of their subjects, and use them for ends which are defined, not by the wishes and aspirations of the people, but by the arbitrary

FUTURE FOR DEMOCRACY

and often changing will of the autocrats. If by a Planned Economy we mean a system in which everybody's place and work shall be fixed for him by authority, then the nearer we come to it, the further we shall depart from the system of liberty, and the nearer we shall come to "totalitarianism".

To say this, however, is not to say that there must be no planning of our social development. On the contrary, it is essential that we should have a clear idea of the sort of society we want to create: even the freest society cannot be attained without planning. We must recognise that the State and the Government have vitally important functions to perform, which ought to be planned with intelligence and foresight, since they alone can create the positive conditions of freedom. The functions of the State have been growing, and their character has been changing. As society becomes more complex, they must continue to grow and to change. And the use of these powers should be planned with regard to the purposes they are intended to serve.

"The purposes they are intended to serve." That is the important thing. In a democratic community, the regulating powers of the State must be used, not for purposes dictated by an irresponsible Government or by any knot of fanatics, but for purposes accepted by the community as a whole; and through its representatives the community must be satisfied that these purposes are honestly conceived and consistently

SOCIAL REORGANISATION

pursued. They must always subserve the three main ends of a free and civilised community: peace, external and internal; liberty for the individual to make the most of his own powers; and justice between individuals, and between conflicting interests within the community.

Broadly, two criteria ought to be applied to all the plans of the directing Government. First, do they help to secure that the productive power of the community—spiritual and intellectual, as well as material—is developed as fully as possible? And, secondly, do they help to create the conditions of freedom for all the citizens of the community? These two criteria may often seem to conflict; productive power might seem to be increased by measures which would seriously restrict the freedom of the individual. This will not often be found to be the case. But when it is so, the second criterion ought to prevail, since liberty is greater than wealth, and it is more important to be free than to be prosperous.

There are certain functions, necessary for the smooth working of society as a whole—necessary to enable the industrial activities of the people to be carried on, by whomsoever they may be controlled—for which the State must be ultimately responsible. Without a sound monetary system, without efficient transport and communications, without a supply of power, modern industry cannot be carried on; and while some of these facilities may be—and are—otherwise

FUTURE FOR DEMOCRACY

provided, it is the duty of the State to see that they are generally available, because it is the duty of the State to see that the conditions exist in which the energies of its citizens can be usefully exercised.

1. The provision of a sound monetary system has for centuries been regarded as a function of the State. Money consists of tokens of value which are made "legal tender" by the authority of the State, and of credit, based upon the presumed possession of, or power to acquire, these tokens. If the issue of currency and credit is badly managed, the gravest consequences will ensue; the whole economic life of the community may be disorganised, as during the German post-war inflation.

There are two features of a good monetary system, and they are often difficult to reconcile. The first is that the issue of currency and credit should be such as to maintain a steady level of prices at home, so that the same amount of money will always purchase roughly the same amount of things, and the real value of a man's income shall not be liable to vary from month to month. The second is that the value of a country's money should not fluctuate wildly or frequently in relation to the value of other countries' moneys, so that trade between nations can be carried on with confidence.

The work of satisfying these two requirements, so far as they can be reconciled with one another, is highly expert and complicated. It is easily mis-

SOCIAL REORGANISATION

understood. That is why there are so many monetary cranks who think that by juggling with the currency wealth can be increased, and its diffusion improved. A bad monetary system may indeed impede the creation of wealth, and disorganise its distribution; but the best monetary system imaginable cannot increase wealth, for this cannot be done except by increased production. To imagine that it can is a little like imagining that the weather can be improved by tampering with the barometer.

The charge of this immensely important function ought to be in the hands of a body of experts, who ought to have a degree of independence, and of freedom from interference in their day-to-day work, comparable to that which the judges enjoy. But they ought to carry on their work under the terms of laws laid down by the State; and the way in which their work is done—not in detail, but in general principles—should be subject to criticism and review by competent State bodies. The British monetary and banking system has on the whole worked better than that of any other country. But it is susceptible of improvement.

2. A second sphere in which the responsibility of the State is clear is the provision of efficient communications and transport, which is essential for the conduct of all activities, public and private. The State has long since assumed direct control of the posts, and of the telegraph and telephone services.

FUTURE FOR DEMOCRACY

It has taken over the roads, many of which used to be privately managed under a system of tolls. It has brought the railways under a high degree of control, has empowered the municipalities to provide local passenger transport, and, in the special case of London, has set up a public authority, not working for profit, to control passenger transport. Whether the whole system of transport, both of passengers and goods, should be directly taken over by the State is an arguable question, to be determined not by doctrinaire theory, but by a balance of advantages. In any case, the State must be responsible for co-ordinating the whole system, whether publicly or privately owned, and for ensuring that this essential service is efficiently carried on. That is why we have a Ministry of Transport.

3. In the modern world, a supply of power is essential to industrial work. It is therefore the third function of the State to see that an adequate supply of power is readily and cheaply available for all who need it. The State has in fact assumed a large degree of responsibility for the organisation of the supply of electricity. Because coal is our main source of power, it has assumed a special responsibility for the coal industry, which it exercises through a Ministry of Mines. And it probably ought to make itself responsible for the full utilisation of our insufficient water-supply, both for power-production and for human use.

SOCIAL REORGANISATION

4. It is only in recent years that we have realised the importance of a fourth function which must be performed by the State, if it is to be performed at all. This is the planning of the country in a geographical sense, in such a way as to ensure that the location of industry and population is intelligently directed, and that the beauty of the country is not ruined by haphazard development. We have suffered immeasurably from the way in which the industrial towns of the North and Midlands grew up during the early phases of the industrial revolution. Powers of planning have been conferred upon the local authorities ; but they have not been successfully used. The local authorities need to be stimulated and guided. And there are some problems which are of a national rather than a regional character, such as the definition and organisation of National Parks, the rapid drift of industry from North to South, and the dangerous growth of the metropolitan area. These are problems of the highest importance to the future of our society, which only the State can deal with.

5. Again, we have only recently begun to realise the importance of scientific National Development, to ensure that the resources of the nation are wisely developed and utilised. Only the State can undertake this far-reaching function, either by direct action on its own part, or by supervising, assisting and co-ordinating private effort of various kinds.

6. During the last generation the State has been

FUTURE FOR DEMOCRACY

more and more deeply involved in the provision of a wide range of social services, the planning and development of which demand serious consideration.

7. Finally, it has long been obvious that the State must undertake the function of regulating industry, in such a way as to ensure that efficiency of production is combined with justice in distribution. In this field the activities of the State have been steadily growing for a century, ever since the first effective Factory Act was adopted in 1833. They will, and they must, go on growing until full social justice has been attained.

3

We have set forth an impressive list of social and economic functions which the modern State must undertake, and has already largely undertaken. It is a list which would have alarmed our grandfathers, who profoundly distrusted any enlargement of the functions of the State. Yet these functions fall very far short of what would be required for a completely Planned Economy. They may rather be described as providing the conditions necessary for a free society, the conditions in which free enterprise can work efficiently, without any denial of justice.

It is needless to discuss here the details of most of these functions, because they will form the subject-matter of several later chapters.

But there is one of them which demands consideration

SOCIAL REORGANISATION

at the outset, because it is of fundamental importance; and, while it stands somewhat apart from the rest, it profoundly affects them all. This is the function of controlling the creation and the issue of currency and credit.

If the money power were independent of public control, it might exercise a tyranny over the whole economic life of the nation. If, on the other hand, it were placed under the direct control of Government, it would expose the Government to a very dangerous temptation, to which many Governments have succumbed in the past, with ruinous consequences for their peoples. For monetary policy is so involved in abstruse technicalities that a popular assembly is not likely to be able to deal with it without committing grave blunders.

As things are, the control of monetary policy is in the hands of the Bank of England, so far as concerns the issue of currency and the determination of the amount of credit that is to be available for the use of industry; it is in the hands of the deposit Banks so far as concerns the actual distribution of credit. But the Treasury wields a good deal of informal influence over the banking system; and the powers and methods of the Bank of England, and in a less degree of the deposit Banks, are defined by the Banks Acts, which were passed, and can be altered, by Parliament.

Our banking system, which controls our monetary policy, is thus, though privately managed, under a

FUTURE FOR DEMOCRACY

considerable degree of public control. It cannot be denied that the British banking system has worked better than the systems of other countries. Nevertheless it presents certain anomalies, which ought to be removed.

In the first place, the Bank of England, though it performs public functions of vital importance, and, on the whole, performs them well, is still a private corporation, even though its shareholders have very little power, and have for many years received by convention a fixed rate of interest. In practice, the directorate of the Bank is a self-electing body; and it has been complained, not without justification, that one interest—that of international banking—has undue weight.

Like other Central Banks, the Bank of England ought to be in law a public corporation; and the Government and Parliament ought to have an effective voice in determining the constitution of its governing body. This does not mean that its policy in the issue of currency and credit should be under the direct control of the Government: that would be highly dangerous. With an expert governing body, the Bank ought to be as free from Government dictation as the judges are, so long as it conforms to the general principles of monetary policy which Parliament lays down. But it ought to give fuller publicity to its work than it now does.

As for the deposit Banks, they also perform essential

SOCIAL REORGANISATION

public functions, and on the whole perform them well. It would be a mere disaster if, by being brought under direct government control, they were forced to abandon that care for the security of their depositors which they have so well displayed. It would be a misfortune, also, if they were unified in one gigantic money monopoly, and if the healthy element of competition which still survives were lost.

It is generally agreed that the government could not and would not, allow any of the big Banks to fail. This being so, it seems right (a) that their profits should be limited, and (b) that they should be compelled to submit (as the Banks of other countries do) to supervision by a Banking Commission appointed by the State, and to a fuller publicity of their accounts than is now practised.

With these modifications, the control of monetary policy, subject to the general supervision of the Treasury, would leave no real ground for complaint.

4

If we consider as a whole the social and economic functions that necessarily fall to the State, it is impossible to deny that they are not well performed, and that they are not well organised. We shall have to consider in later chapters how the organisation of some of them could be improved. But they cannot be kept in water-tight compartments, or developed without regard to one another. An exaggerated

FUTURE FOR DEMOCRACY

departmentalism is, indeed, one of the defects of our system; and, if the necessary foresight and planning are to be made possible, some effective means of co-ordinating them must be provided. It ought to be the duty of the Cabinet to perform this function; but, as we have seen, the Cabinet is much too busy.

An idea which was first propounded in the report of the Liberal Industrial Enquiry, *Britain's Industrial Future*, has since been warmly endorsed by the authors of *The Next Five Years*. This idea is that we need what is called an "Economic General Staff", whose business would be to look ahead and to suggest plans for future development, to be considered by the Cabinet and embodied in legislation or administrative action. The Labour Government of 1929 took up the idea, and appointed what was called an Economic Advisory Council. But this body does not seem to have been of much use. It was never asked, or encouraged, to undertake anything so ambitious as the preparation of far-reaching plans for future development; and if it had done so, the Cabinet, with its multifarious preoccupations, would have had no time to consider its proposals.

The work of surveying our problems as a whole, unembarrassed by the pressure of day-to-day political emergencies, is in fact not done at all, except by independent groups such as the authors of *Britain's Industrial Future*, the authors of *The Next Five Years*, and the able group who call themselves P.E.P. If the

SOCIAL REORGANISATION

State is to equip itself with a “thinking department” which will look ahead, it will have to be a smaller, a more homogeneous, and perhaps a less academic body than the abortive Economic Advisory Council; and it will have to be supplied with an efficient whole-time staff.

But however the work of preliminary thinking is arranged, it is clear that in a democratic system the business of deciding what steps should actually be taken, and what new legislation may be needed, must fall to the Cabinet, which is responsible to Parliament. Yet the Cabinet, as it is now constituted, is obviously incapable of doing this work.

The authors of *The Next Five Years* suggested, as a means of overcoming this difficulty, that a Committee of the Cabinet should be set up, including the Prime Minister and a number of Ministers without portfolios, who would be free from the pressure of departmental work. But this seems a very unsatisfactory device. The members of the Committee would all be out of touch with the work of the departments that would necessarily be involved. We had an illustration of the ineffectiveness of such an arrangement when the Labour Government of 1929 entrusted the problem of Unemployment to the Lord Privy Seal, the First Commissioner of Works, and the Chancellor of the Duchy of Lancaster. These ministers had little or no departmental work of their own, but they also had no direct contact with the Board of Trade, or the

FUTURE FOR DEMOCRACY

Ministry of Labour, or the Ministry of Mines; naturally nothing came of this device.

A more efficacious way of dealing with the problem would be provided by the scheme of Cabinet reorganisation outlined in Chapter IV. Under this scheme the work of the Cabinet would be divided among a number of sub-Cabinets, each dealing with one large branch of national policy; and the heads of the sub-Cabinets would represent them in the supreme Cabinet, where members would largely be freed from the detail of departmental work.

One of these sub-Cabinets would be concerned with the functions of the State in the economic field, and would include the President of the Board of Trade, the Minister of Agriculture, the Minister of Labour, the Minister of Transport, the Minister of Mines, the Postmaster-General, and (as we shall suggest in a later chapter) a Minister of Industry. It would also include representatives of special organisations such as the Development Commission, the Road Board, the Forestry Commission and the Electricity Commission. The chairman of this large group of departments, who would represent them in the supreme Cabinet, might be called the Secretary of State for Economic Affairs.

Another sub-Cabinet would concern itself with the Social Services, the "condition of the people", and the work of local government. It would include the Minister of Health, the Minister of Labour, the President of the Board of Education, as well as the

SOCIAL REORGANISATION

heads of special organisations dealing with housing, with regional planning, with health insurance and with unemployment. The Chairman might be called the Minister of Social Service.

These two sub-Cabinets could take into review all "planning" proposals concerned with their fields of work. They could survey the whole economic field, and the whole social field. They could make use of the advice of the Economic General Staff, if such a body existed. They could then submit their proposals in a clear and coherent form to the Supreme Cabinet; and ultimately the proposals, by this time fully considered and well digested, could be laid before Parliament.

If any reader feels that, in the last few pages, we have been too much concerned with mere machinery, let him reflect that if we want to carry into effect wide plans of social reorganisation, it is not enough to proclaim vague and large ideals; it is necessary to consider by what means they could be carried into effect. The functions of the State are already so large, and, under any considerable scheme of thoughtful planning, are likely to be so much enlarged, that there is a real danger of a breakdown in our machinery of government; and when we are looking forward to large changes, it is essential that we should satisfy ourselves how they can be carried out without causing a collapse of the system of democratic government, already heavily strained.

CHAPTER VII

DISTRIBUTION OF WEALTH

1

THE most glaring, though perhaps not the most serious, defect of our social order is the gross and flagrant maldistribution of wealth: the existence, at one end of the social scale, of a number of people who enjoy huge incomes which they have done nothing to earn, and which they waste in lavish luxury; and, at the other end of the scale, of a multitude of people, who, however hard they work, cannot make enough to keep themselves and their families in decent conditions. The existence of so poignant a contrast cannot be tolerated in a free society. It denies to a large proportion of our people the essential conditions of a free life.

This is an evil which has always existed among men. But the awakened conscience of civilised society is no longer willing to tolerate it as it has been tolerated in the past, or to accept it as part of the order of nature. It results, no doubt, from the working of our economic system as a whole; and the remedy for it can only be found through a number of con-

DISTRIBUTION OF WEALTH

vergent reforms, which will occupy our attention in later chapters. Nevertheless, it will be a good starting-point for our enquiry to examine the nature and extent of the maldistribution, and to consider what has already been done to amend it, and what plans have been suggested by various schools of thought to deal with it.

It is only since the Great War that we have begun to realise with any fullness the evils that result when large numbers of our citizens have insufficient incomes, or to fix any practical standards of sufficiency.

The war showed that an alarming proportion of the manhood of one of the richest countries in the world were physically unfit. About one-third of all the recruits examined had to be put into the third class, as fit only for light work. And the more the causes of this state of things were examined, the more clear it became that the chief cause was insufficiency of income.

Since then, a great deal of attention has been given to the scientific study of nutrition. In his book *Food, Health and Income*, Sir John Orr contends that something like one-half of the population must be insufficiently nourished. The deficiency is most serious in the very foods which our soil and climate are best fitted to produce—milk (the most valuable of all foods), eggs, fresh meat, fruit and vegetables. As Sir John Orr demonstrates, the reason why the consumption of these health-giving foods is so low is

FUTURE FOR DEMOCRACY

that the people cannot afford to buy them. Yet these are the foods whose prices the Government has been labouring to raise.

Mr. Seebohm Rowntree, in *The Human Needs of Labour* (1937), has given us a study based upon a detailed investigation of a large number of families in a typical area. He has tried to work out what weekly income would make it possible, at the prices of 1936, for a man and wife with three dependent children to live healthily. Using expert knowledge, such as the ordinary housewife cannot command, he has worked out a dietary which would provide all the needful elements at the lowest cost. He has made an allowance of 9s. 6d. per week for rent—which would be insufficient in some areas. He has made a very modest allowance for clothes, and a bare minimum for other requirements. And his conclusion is that, with great care and self-denial, a family of this normal size could be maintained in full health, at the prices of 1936, for 53s. a week in towns, and for 41s. a week in country districts.

It should be noted that these figures are far above the allowances made to the unemployed. An unemployed man with a wife and three children receives 37s. 6d. a week, or, if the children are all under five years of age, 33s.

Of course the number of families with three children is relatively small; and it is only during a limited period of a workman's life that he has children under

DISTRIBUTION OF WEALTH

working age to maintain. Before and after that period, the strain is much less. But when it is realised what almost inhuman economy and self-denial are demanded if a wage of 53s. is to suffice for a family of normal size, it will not seem unreasonable to suggest that 53s. is a fair minimum wage for a workman. Families with less than three children, or with none, will of course be better off; they will have a modest margin for saving, or for rational pleasures. On the other hand, even on this wage, families with more than three children will be unable to reach the standard of good health.

Mr. Rowntree suggests that 53s. a week in towns and 41s. in the country should be regarded as minimum wages, and should be enforced as rapidly as possible through Trade Boards. There may be difficulties about this proposal. One is the varying purchasing-power of money. If 53s. was enough at the price levels of 1936, it would be insufficient at the price-levels of 1938. Another difficulty is that the general use of Trade Boards for this purpose would undermine the system of collective bargaining which exists in all the more highly developed industries.

But we need not, at this point, concern ourselves with the difficulties. It is obviously vital to the well-being of the community that, by some means or other, all workers in a civilised State should be assured of a wage upon which children can be healthily brought up. Mr. Rowntree's figures give us a useful

FUTURE FOR DEMOCRACY

basis for calculation; and we must ask ourselves whether our national resources will enable us to meet his demand.

According to the calculations of Mr. Colin Clark—an accepted authority on this branch of statistics—nearly half of the total number of adult workers receive wages of less than 55s. a week. Most of them clearly cannot reach Mr. Rowntree's modest standard.

So long as these conditions continue, we cannot claim to have laid firmly the material foundations of a free society. Under-nourishment means inefficient work and lowered production. It means stunted life. As a normal condition for one-half of the population, it cannot be tolerated. Yet there is no denying that conditions in this country are better than in many others, and immeasurably better than they were fifty or a hundred years ago.

2

Is our total national income sufficient to enable us to mend this state of things, and to fix Mr. Rowntree's standard of 53s. a week, or £137 a year, as the minimum wage for adult urban workers, and 41s. a week, or £106 a year, for rural workers?

It is impossible to state with accuracy the total income of the nation. But the best estimates, made by Professor Bowley, Lord Stamp, and Mr. Colin Clark, suggest that it probably now stands in the neighbourhood of £4,000,000,000 per annum.

DISTRIBUTION OF WEALTH

Out of this, of course, a certain proportion must be set aside for capital development, without which the nation cannot continue to earn its income, still less increase it. This must clearly be necessary whatever our economic system may be—whether the capital required is provided by the State, or whether, as now, it is provided mainly by private persons out of their private incomes. Put this figure at one-tenth of the total or £400,000,000, and we are left with £3,600,000,000 available for distribution among, and spending by, the members of the community.

How is it actually divided among them? How does this division bear upon Mr. Rowntree's demand that £137 per annum should be the minimum wage of an adult urban worker who provides for, or expects to provide for, a family?

The private incomes into which this total income is divided fall into four classes.

First there are the rich, more than 100,000 in number, with incomes of more than £2,000—high enough, that is to say, to be subject to surtax. They take among them £599 millions, or 16 per cent. of the total. Among them are 10,000 very rich people, with incomes averaging £22,000.

Next come the middle class, numbering about 2,200,000, with incomes between £250 and £2,000. They take among them about £950 millions, or 25 per cent. of the total.

Next there are the people with incomes between

FUTURE FOR DEMOCRACY

£125 and £250—the “lower middle class”, and the more prosperous working men. They number 5,000,000, and receive £980 millions, or 26 per cent. of the total.

Finally, there are the people with less than £125, who number 11,000,000, or five sixths of the total number of persons with incomes of their own. They take £1,100 millions, or 31 per cent. of the total, and their average income is £100. It is true that these figures refer to people of all ages, and therefore include all juvenile workers. This obviously very greatly reduces the average. These figures, worked out by Mr. Colin Clark, are, of course, only approximations. But they are roughly true. And it is clear that those included in this last group, all of whom have incomes of less than £125, fell below Mr. Rowntree’s minimum of £137.

The first result that springs from a study of these figures is that it is—at any rate to-day—absurd to speak of the people as being divided into “two nations”, the rich and the poor. If we are going to make these unreal divisions, there are at least four nations, the rich, the middle class, the lower middle and artisan class, and, finally, the largest class of all, the poor. One of the most interesting features of the situation described by these figures is the growing strength and numbers of the middle class. The incomes in this class, from £250 to £2,000 a year, are by no means excessive. Nor, indeed, are the majority of the

DISTRIBUTION OF WEALTH

incomes even in the class we have labelled "rich". Apart from the 10,000 very rich people, their incomes average about £3,750, and they include all the judges and other high officials of State, and most of the managers and directors of industrial concerns.

But there is one poignant contrast which these figures bring out in strong relief. It is the contrast between the 10,000 people—"the upper ten"—with their average incomes of £22,000 a year, and the 11,000,000 people with average incomes of £100 a year. The contrast is heightened when we remember that the 11,000,000 have to work hard for their living, while most of the 10,000 do not have to work at all. Here, indeed, is a "gross disparity of fortunes" such as we said was incompatible with genuine democracy.

It is not that the 10,000 dominate the lives of the 11,000,000, as is sometimes suggested; it is simply that they take an unfairly large proportion of the nation's income, and that the lavish luxury of their lives offers too bitter a contrast to the stinted lives of the others.

It is important to realise that the condition of the 11,000,000 cannot be rectified merely by a redistribution of the existing national income. We have noted that the middle ranges of income are by no means excessive. Even if (what is unthinkable) we were to deprive the very rich 10,000 of the whole of their incomes, and divide them out among the 11,000,000, the average income of the latter would only be raised

FUTURE FOR DEMOCRACY

from £100 to £111—still far short of Mr. Rowntree's modest standard.

It would seem to follow that redistribution of the existing national income will not meet the need. The total must be increased—we must have a larger cake, if everybody is to have a good slice. We must expand our foreign trade; we must develop our own resources; we must increase the efficiency and output of our industry. All these objects of policy are discussed in other chapters.

But this does not alter the fact that the existing distribution of wealth is unhealthy, and needs amendment.

One means of achieving this end, which has been largely used during the last century, especially by Liberal Governments, has been to make use of the instrument of taxation. The burden of meeting the nation's outlay has been largely transferred from indirect taxation on goods, which falls with disproportionate weight upon the poor, to direct taxation on income, which can be graded according to the means of the taxpayer. This transfer, however, is now being partially reversed. Again, a distinction has been drawn between "earned" income, derived from services rendered, and "unearned" income, derived from investments, the latter being taxed more heavily than the former.

The result is that the very rich man who draws his income mainly from investments now has to pay,

DISTRIBUTION OF WEALTH

in income tax and surtax, half of his total income to the State; and this, together with the increase of indirect taxation, has rendered possible the development of the Social Services, which add to the real income of all classes, but especially of the poor. The *real* income of the very rich man (after paying his taxes) is therefore only about half of his nominal income, while the *real* income of the poor man is greater than his nominal income.

The instrument of taxation has therefore had quite appreciable effects in reducing the disparity of incomes. But this is not a wholly satisfactory method. It is not a good thing that the poor man should get into the habit of expecting the State to supplement his income; for this weakens his self-reliance. It would be far better that he should be more adequately paid for the work which he actually does, so that he should be able to maintain himself and his family in decent conditions out of his own resources.

Another important point about the distribution of incomes is that they may come either as payment for actual services—wages and salaries—or as rent and interest, due to the ownership of property. “Profits” sometimes fall into one category and sometimes into the other: the profits of a one-man business are largely the payment for his work; the profits of a big company provide the dividends of the shareholders.

There seems to be some ground for thinking that

FUTURE FOR DEMOCRACY

the proportion of the national income which goes in salaries and wages tends to increase, while the proportion which goes to pay interest on capital tends to decrease. While in 1911 (according to Mr. Colin Clark's estimate) wages and salaries got just under half of the total, and rent, profits and interest got just over half, in 1931 wages and salaries got nearly two-thirds, rent, interest and profits not much more than one-third. If we make a reasonable allowance for those "profits" which are really payments for work done, it seems fair to say that about one-third of the national income goes in payments for the use of capital, and two-thirds in payments for actual work done. And when we recall how vast and costly is the capital equipment of a modern industrial State, and how greatly it adds to the earning power of labour, the division in the proportion of one-third and two-thirds does not seem to be necessarily unjust.

What *is* unjust is that the payments for the use of capital go preponderantly to a small number of people, because they own the greater part of the capital. If the ownership of capital and the share that goes to it were more widely distributed, the distribution of the national income would be more healthy. And this brings us to the crux of our problem—the distribution, not of income, but of the ownership of capital or property.

DISTRIBUTION OF WEALTH

3

It is even more difficult to get a trustworthy estimate of the total value of the capital or property of the country than of its total income. But the accepted estimate is about £24,000,000,000. How is the ownership of this colossal sum divided among the people?

To begin with, a high proportion of it (nobody knows how high) belongs to, and is administered in the interests of, the whole community, or special sections of it. Think of the immense capital value of the Post Office, with all its buildings and telephone and telegraph equipment; or of the Dockyards; or of the Crown Lands and the lands that have been acquired for afforestation; or of the roads, and the value of the land they occupy. Think, again, of the great municipal properties, reservoirs and lakes with their catchment areas, gas-works, electricity works, public buildings. Think of all the property—buildings, equipment, endowments—owned by Universities, Schools, Churches, Hospitals and other public institutions. Or think of the property owned by the Trade Unions and by the Co-operative Societies. In some of these cases the authorities concerned pay interest on money they have borrowed to carry out their works, but the value of the capital they own is far greater than the debt they have incurred.

Here is a vast mass of property which belongs to no private persons, but belongs to, and is administered

FUTURE FOR DEMOCRACY

in the interests of, the community as a whole, or sections within it. How great a proportion of the nation's property or capital falls into this category we do not know: possibly as much as one-third.

The remainder is owned by private persons, who draw interest on it (or don't, as the case may be). How is it distributed ?

The most trustworthy material for answering this question is supplied by the returns of estates liable to estate duty on the death of their owners. From the returns for 1934-5 we get some interesting lights. In that year 560,000 people died—a number large enough to give a fair average for the community as a whole. Of the 560,000 only 135,000, or less than one-fourth, left property valued at £100 or more. But the 560,000 include all the children and young people who died in that year, as well as a large number of married women who had little or no property of their own. Even after we have made the maximum deductions on these heads, it remains true that a large majority of the 560,000, and therefore presumably of the people as a whole, owned little or no property; and most of what they left at death consisted of insurance benefits from which they acquired nothing during life. This large group of almost propertyless people roughly corresponds with the 11,000,000 whom we saw having incomes of less than £125. They are the "propertyless proletariat".

Then comes a large group who left property of

DISTRIBUTION OF WEALTH

more than £100 but less than £1,000. They formed 62 per cent. of the whole number of property-owners; but the total value of their estates amounted to only seven per cent. of the value of all the estates dealt with. They probably correspond roughly with the five million people of the lower-middle and artisan classes who draw incomes of between £125 and £250, on which it may be possible to save a little, but not much.

A third class, forming 34 per cent. of the total, left property to the value of between £1,000 and £20,000, which formed nearly 40 per cent. of the total amount. They correspond roughly with the middle class whom we saw with incomes of between £250 and £2,000—incomes upon which a good deal of saving for investment is possible.

Finally, we have the class of the rich, who left estates of £20,000 and upwards, into the millions. They form only three per cent. of the total; but they possessed no less than 53 per cent. of the total wealth disposed of. Among them is a tiny fraction of the very rich, who left estates of £250,000 or more, and who owned among them nearly 15 per cent. of the total wealth.

This gives us a pretty clear idea of the distribution of the ownership of property among the British people, and it corresponds reasonably well with the distribution of the national income among them.

There are some indications that the position is

FUTURE FOR DEMOCRACY

improving; that is to say, that the number and value of small estates is growing slowly and the size of big estates decreasing slowly. But the change is not sufficiently marked to have serious significance. Lord Runciman has argued that the diffusion of property is taking place rapidly, because the great majority of holdings in big companies are small. But this fact does not bear the interpretation he puts upon it; these small holdings are mainly due to the fact that investors like to have their eggs in a great many baskets.

It is, however, quite certain that the savings of the working class are increasing, and that working people *want* to have “a bit of property”, and exercise self-denial to get it. The amount of money entrusted (not always by working people) to the institutions for saving and investment which working people mostly use—Building Societies, Co-operative Societies, Savings Banks, Saving Certificates—has gone up by leaps and bounds since the war; in 1934 it was more than four times as great as it was in 1913, and half as much again as it was as recently as 1924.

But the broad contrast remains between the small number of rich people who own huge masses of property, and the very large number of poor people who practically own no property at all. Between these two extremes there are large and growing elements of the population whose position is not unsatisfactory. In outline, the distribution of

DISTRIBUTION OF WEALTH

property shows the same features as the distribution of income: a solid and growing central mass who have reasonable incomes, and who own enough property to make a difference to their lives; and, at the two extremes, a very small body of over-rich people, and an enormous number—possibly a majority of the population—whose incomes are insufficient for decent life, and who have almost no property at all. And it is quite clear that the unhealthy distribution of property aggravates and intensifies the unhealthy distribution of income.

How is this state of things to be amended?

4

Even among those who deplore and are eager to alter the existing maldistribution, there are sharp differences of view as to the right method to pursue.

Socialism and Communism hold that there is no effective remedy for the maldistribution of property except the assumption by the State of the ownership and control of all property in the means of production and distribution. Only in this way, they hold, can the “classless” society be reached. They believe that private ownership of capital is a vicious thing in itself, and has brought it about that a small class of owners dominate the life of the nation, and keep the mass of the people in a state of subjection and poverty.

FUTURE FOR DEMOCRACY

It is held that the control of large masses of capital gives a dangerous degree of power to those who hold it. On this view, the whole economic system is designed, not for the service of the community, but for the production of the maximum of profit for the owning class.

This view seems to be based, in several respects, upon a misunderstanding of the constantly changing economic system. To begin with, private property is not in itself an evil; it is only the maldistribution of it that is wrong. The true view was expressed by Bacon, when he said that "property is like muck, good only if it be spread". At all times men have desired to own property, and the desire has been a stimulus to effort. The possession of "a bit of property" strengthens a man's self-respect, safeguards his independence, and buttresses his liberty. The true cure for maldistribution is wider distribution, not concentration in the hands of Government. Not *public* ownership, but *popular* ownership (if it can be brought about) is the remedy.

Furthermore, the conditions of property-owning have been profoundly changed by the development of the joint-stock company. This has made it possible for the ownership of capital to be very widely distributed. Already it is widely distributed. There are in this country some millions of capital-owners, though they still form a minority of the community. It is true that the actual control of all this capital is not in

DISTRIBUTION OF WEALTH

reality exercised by the owners, but by small groups of directors. Their power may be too great; but it can be regulated by the State. It is nothing like as great as would be the power of the small group of people who would, under the Socialist system, control the whole capital resources of the country.

Agreeing in their aims, Communism and Socialists differ sharply as to the means of reaching it. Communism, following the Russian example, would cut the knot by confiscating all industrial capital, and thus disburdening itself of the payment of interest to private individuals. This method was only possible in Russia because the country had been reduced to chaos by the war, and the old ruling classes, who had gravely abused their power, were ruined and disorganised. Even in Russia it could only be carried out by ruthless despotism and by the shedding of an ocean of blood. In Britain the task would be much more difficult. Here there are millions of property-owners, and among them are the ablest people in the nation. Even the Trade Unions might resent the confiscation of their invested funds. A Communist attempt to seize power in this country in order to enforce their doctrine might indeed lead to the creation of a dictatorship; but it would be a Fascist dictatorship.

Socialism would follow the milder method of buying out the existing owners of property, presumably giving them Government bonds at a fixed rate of interest in exchange for their land, shares, etc. The ex-owners

FUTURE FOR DEMOCRACY

would become idle *rentiers*, living on interest guaranteed by the State, without risk and without responsibility. This change would be no social improvement. Nor would it do anything to amend the maldistribution of property; for the contrast between the rich bond-holders and the great mass of the "proletariat" who had nothing to depend upon but the wages of their labour would be as acute as ever.

Neither Communism nor Socialism appears to offer any real solution of the problem of maldistribution. The notion that they would produce a "classless" society is untenable. The Socialist method would emphasise the distinction between the "idle rich", and the working poor. The Communist method would create a servile society in which the people, entirely divested of private property, would be at the mercy of the dominant group who would wield the crushing power of concentrated capital.

If we are to create a genuinely free society, therefore, we must strive to bring about the widest possible diffusion of ownership, looking forward to a time when everybody's income will be derived partly from earning and partly from owning.

What steps can now be taken towards that goal ?

DISTRIBUTION OF WEALTH

or a Nuffield makes great wealth by organising gigantic enterprises which enrich the community even more than the *entrepreneur*. But the majority of big fortunes are due to inheritance, and to the tradition of the British governing class—a tradition of feudal origin—that it is a worthy ambition to build up a great family fortune, and to prevent it from being dissipated. This was the object of the practice of “entailing” landed estates. It is a feudal ambition which is out of keeping with the spirit of democracy.

The chief means hitherto adopted in Britain of reducing over-large fortunes has been that of imposing very heavy death duties on estates passing at death. Originally invented by the Liberal Party in the days of its ascendancy, this system has now become an indispensable element in national finance. It has provided large revenues for the State, and has tended to reduce great fortunes, or, at any rate, to check their growth. But it has some serious drawbacks. The necessity of suddenly realising a large proportion of the capital invested in landed estates or in great business concerns often has crippling effects. And since the State takes the same proportion of the rich man’s fortune to whomsoever he bequeathes it, the system does not encourage him to break it up in numerous legacies, but rather to bequeath most of the residue which the State leaves him to a single heir, who thus inherits immense power, without having earned it, or proved his capacity to use it well.

FUTURE FOR DEMOCRACY

It is evident that Estate Duties alone are not a sufficient means of breaking up over-large fortunes. More direct methods of dealing with inheritance must be sought.

Better results would be obtained if the main burden of taxation were transferred from the estate as a whole to the bequests made out of it, which comes as unearned windfalls to the recipients. If small legacies were very lightly taxed, but large legacies were liable to very heavy duties, rising even more steeply than the existing death-duties, the effect might well be to encourage very rich men to break up their estates by leaving a number of small legacies instead of bequeathing an immense fortune to a single heir.

And if a very low duty, or none at all, was charged on bequests to public objects, the endowment of Universities, Schools, Churches and so forth would be greatly increased. It is all to the public advantage that these institutions should have the independence which endowment gives them. This ensures their freedom from the pressure that is often exercised (for example in Germany) where universities and the like are too dependent upon the State.

It is right that a man who has built up a fortune should be free to dispose of it; but it is also right that the State should discourage him from disposing of it in socially disadvantageous ways. He would be discouraged from perpetuating unwholesomely large fortunes if he was made to realise that, should

DISTRIBUTION OF WEALTH

he do so, most of his money would be taken by the State. A scheme of this sort, in proportion as it led to the break-up of big fortunes, might cause a decrease in the revenue drawn by the State from death-duties. But the gain would outweigh the loss; and the State would be compelled to pay for current expenditure, as it ought to do, out of current income, and not out of capital.

With this provision should be combined the abolition of entail; and it should be made possible for the owner of a landed estate to pay for the inheritance duties falling upon him by a transfer of land to the State.

By these means greater results would be obtained in breaking up big estates than at first sight seems likely. This should be the first step in dealing with inheritance. If it proved to be ineffective, other methods could be adopted. A firm treatment of inheritance is essential if we are to create the conditions of a free society.

This is, however, only a beginning in the task of bringing about a diffusion of ownership. A second line of approach would be to secure that the workers by brain and hand in industry should have, as by right, some share of ownership in the concerns for which they worked.

It is a weakness, but not a necessary weakness, of the "capitalist" system, not merely that under it industrial concerns are privately owned, but that

FUTURE FOR DEMOCRACY

the rights of ownership are in most cases limited to those who have invested capital in it. In the majority of cases they have done no more; yet they draw all the advantage of any increase in its prosperity, to which they may have made no contribution whatsoever.

This was, perhaps, reasonable when a factory was built and worked at the cost of an individual or a group of individuals, who spent their time in its service, and were held liable in all they possessed for all its debts. But this is no longer the case, except in very small concerns. While the investors no longer take any direct responsibility for the working of the concern in which their money has been invested, and seldom even attend shareholders' meetings, the State has freed them from all liability beyond the amount of their investment. Yet it has called for no sacrifice in return for this privilege. It might reasonably insist that, after the investors have received a fair return on their capital, provision should be made, out of further profits, to recognise the interest in the concern of those whose brains and hands cause its success. A system of profit-sharing, or of ownership-sharing, is a necessary element in a sound industrial policy, and would materially help to bring about a diffusion of property.

Finally, private saving and investment ought to be encouraged and facilitated in all sections of the community, as a means of creating the constant stream

DISTRIBUTION OF WEALTH

of new capital which the nation needs. Hitherto new capital has been created partly out of the surplus profits of trading companies, and partly out of the superfluity of the rich. The practice of investment has been extending downwards through the social scale, until now new capital comes largely from the middle-class, and, in a less degree, from the more prosperous part of the working class. If, by breaking up great fortunes, we are going to decrease the superfluity of the rich, it will become more and more important that the gap should be filled by the modest savings of the million. There could not be a more healthy development.

And it is clear, from the trend of recent years, that even poor people are eager to take advantage of any opportunities of this kind that are available; eager to become the possessors of "a bit of property".

But it is a mere derision to speak of saving and investment in the case of the millions who have incomes of less than £125 a year, insufficient to maintain them and their families in health. The level of wages must be raised before saving can become possible.

If the minimum of 53s. per week, advocated by Mr. Rowntree, were established, there would be no margin available for saving in the case of a workman with young children. But there would be a small margin before the children came, and after they had

FUTURE FOR DEMOCRACY

ceased to be a drain upon his resources. And if 53s. were fixed as a minimum, there would necessarily be a grading upwards of wages above that level; and it would become more possible for working people to acquire "a bit of property" wherewith to strengthen their economic position, and at the same time to acquire a share of ownership in the country's economic activities, a "stake in the country".

Whether this grading up of wages is possible or not depends upon whether our industrial system can be made more productive, and therefore more capable of bearing the burden; the grading up of wages would itself stimulate increased productivity. But that is a subject which must be deferred to another chapter.

In any case, something needs to be done to make saving and investment easier for the mass of the people, who have no banking-accounts, cannot obtain the advice of a skilled stockbroker, and are therefore limited to the narrow range of institutions to which they now entrust their savings.

Three things seem to be necessary for this purpose. The first is that the facilities of the banking system should be made available for all classes of people. This is at present rendered almost impossible by the tax of 2d. on every cheque, which does not exist in America, and which only brings in a small revenue. If this exasperating tax were abolished, wages would in time come to be paid by cheque, and every worker

DISTRIBUTION OF WEALTH

could keep a bank account. The possession of a bank account is a real stimulus to thrift. The depositor does not draw out more than he needs for current expenses; he watches with attention the growth of his balance; and when it has accumulated sufficiently, he can invest it, perhaps with the advice of his banker.

The second possible facility is that the Government, which always needs capital for its own use or for that of local authorities, might keep continually on sale, at every bank and post office, Government bonds for small amounts.

The third facility might lie in a development, under proper supervision, of Trust Companies in which the small investor could put his savings with the knowledge that they would be distributed over a wide range of securities; thus getting something of the advantage of distributed risks which the well-to-do investor gets from consulting his stockbroker. There has already been a remarkable development of this sort of concern, showing that something of the sort is needed. But there have to be safeguards, for which the State ought to make itself responsible.

Even with the present maldistribution of wealth, there is abundant evidence that working-people are eager to save, and to acquire "a bit of property"; and not all the arguments of theoretic Socialists will convince them that this is an unsocial practice, or that they would not gain in independence and freedom

FUTURE FOR DEMOCRACY

if they had some “private means” behind them. By encouraging and facilitating this movement in every way, we shall lay more secure foundations for the free society which it is our aim to build.

CHAPTER VIII

ORGANISATION OF INDUSTRY

1

DURING the last century, and especially during the last generation, an immense change has been taking place, at first gradually, but latterly very rapidly, in the organisation and control of industry. The character of the economic system which is called “capitalism” has been transformed, yet there are few who grasp the full significance of this change, or have tried to think out how it can best be utilised to the advantage of the community.

In the early days of capitalism, one man, or a small group of partners, started a concern, built their own mill, supplied the machinery, bought the necessary raw materials, paid the wages of their employees, and took all the profits, or all the losses, as the case might be. They were liable in all their property for any losses in which the concern might be involved: their liability was unlimited, and therefore their profits also were unlimited. Naturally, they regarded the concern as their absolute property, and the workers as merely their hired servants, to be paid the lowest wages which they

FUTURE FOR DEMOCRACY

would accept, and to be discharged when their services were no longer required.

This was pure "capitalism". It still survives in many small concerns. But it is no longer characteristic of the greater part of industry. It has been replaced by the system of "joint-stock" companies, with limited liability. In this system the capital required for an industrial concern is provided by a large number of shareholders, who do nothing for the concern beyond providing its capital, and who cannot lose more than the amount they have invested. Yet they are still treated as if they were partners of the old style. They are still regarded as the sole owners of the concern; and although their liabilities are limited, their profits are not.

This system has made possible the gigantic achievements of modern industry, which required great aggregations of capital such as the older system could not have supplied. The joint-stock method canalised the innumerable rivulets of private thrift, and so made huge enterprises possible.

It has also facilitated a wide distribution of the ownership of capital. There are now some millions of capital-owners in this country, and their property mainly takes the form of shares in limited liability companies. Moreover, most of them minimise their risks, by distributing their holdings over a large number of concerns, at home and abroad; and the time may well come when the principal productive enterprises of

ORGANISATION OF INDUSTRY

the whole world will be jointly owned by investors from every country in the world. If this happens, it will be a real safeguard for peace. Recently there has been a remarkable development of Trust Companies, which invest the capital entrusted to them in a great variety of concerns, and thus help the small investor to distribute his risks. Even the investor of £10 in a trust company may draw his interest from concerns scattered over the face of the earth. In these ways a wide diffusion of the ownership of capital is being brought about, and the way is being opened for the solution of the problem discussed in the last chapter.

The rapid development of the joint stock company has indeed changed the character of property. Property used to consist of definite, tangible things—land, houses, factories, machines, tools, ships, jewels, gold, silver—to which a man could point and say “that is *my* property”; and he controlled and was responsible for the way in which it was used. More and more, the more costly of these things—those used in productive enterprise—are coming to be owned “in joint-stock” by large numbers of people, whose property mainly consists, not of tangible things, but of claims to a share of the profits earned by the use of these things—claims that are embodied in documents known as “share certificates”, which can be bought and sold. In other words, the greater part of property has become incorporeal, disembodied.

Although this change in the character of property has

FUTURE FOR DEMOCRACY

had some results of high value—notably by making great enterprises possible, and by facilitating a wide distribution of ownership—it is also attended by serious dangers, to which we have not yet given sufficient attention.

In the first place, it has brought about a remarkable divorce between ownership and responsibility. The investors in these companies, especially if their holdings are distributed over a large number of concerns, cannot feel or exercise any personal responsibility for the way in which their property is used. It is true that the law still regards them as responsible in theory, and treats them as if they were partners in an old-fashioned concern in which their liability was unlimited. They are still summoned to attend annual meetings of their concerns, to hear and discuss the reports of the directors on the year's working, and to elect the directors for the coming year. But this responsibility is no more than a legal fiction. Very few of the shareholders ever dream of attending an annual meeting; and those who do are almost impotent; if they were to challenge the proceedings of the directors, they would be snowed under by proxy votes obtained from those who do not attend. Indeed, the shareholders, in the bigger concerns, such as the L M S Railway, or Imperial Chemical Industries, or the Imperial Tobacco Company, are so numerous—their numbers amounting to hundreds of thousands—that if they all took it into their heads to take their responsibilities seriously, and

ORGANISATION OF INDUSTRY

to attend an annual meeting, there is no building in the country large enough to hold them, not even the Wembley Stadium, and if they insisted on meeting (say on Salisbury Plain) it would be impossible to transact any business with so vast a crowd. Even in small companies, the shareholders seldom dream of attending; a few of them may be drummed up to form a quorum with the directors, and to move and second votes of thanks. But the control supposed to be exercised by the shareholders is quite unreal. The directors in all but form elect themselves, or fill up vacancies as they occur; and tell the shareholders just what it is thought necessary for them to know. In the modern system, ownership has been divorced from responsibility.

A second feature of the joint-stock system is that it lends itself easily to the formation of gigantic combines, which tend towards monopoly. Although the shareholders do not use their voting power, voting power is none the less important. As a rule it attaches only to ordinary shares; the holders of debentures and, usually, of preference shares, have no voting right, though their capital may form a large proportion, and even the major part, of the concern's capital. Whoever controls 51 per cent. of the ordinary shares can therefore control the policy of the company. Company A only needs to acquire 51 per cent. of the ordinary shares of Company B, and its directors can control the policy of B, and make their control secure by means of

FUTURE FOR DEMOCRACY

interlocking directorates. By various financial devices, notably the creation of "holding companies", which exist to acquire a controlling interest in a number of working companies, it is possible to build up very powerful concerns, which may dominate a whole industry. The growth of these giants has been a marked feature of the last generation, and especially of the period since the Great War. As they grow, those who direct their policy are more and more divorced from any effective contact with the actual process of production, and still more from any human relationship with their employees.

This development is defended on the ground that it leads to increased efficiency and economy, and the process has been dignified by the name of "rationalisation". For the most part these giant concerns have been organised not so much by men engaged in actual production, as by financiers, whose main motive has seldom been to render greater service by achieving greater efficiency, though this is commonly put forward as their justification. Their main motives have been to make large profits out of the process of flotation, and to build up a gigantic fabric of power which will be sure of making profits because it will have the consumers more or less at its mercy.

It would be foolish to condemn, outright and without qualification, this whole movement of combination and amalgamation. It is in part an outcome of the tendency towards large-scale organisation both in production and

ORGANISATION OF INDUSTRY

in distribution which is a feature of our time. And beyond a doubt it often brings about increased economy in production, and an avoidance of waste. But there are clear limits to the advantages that can be gained in this way. As the size of a concern grows, the difficulty of efficient central direction increases. There is a multiplication of red tape, and a tendency to weaken the initiative and responsibility of subordinate officers; and this may easily counterbalance or outweigh the advantages of combination. Up to a certain point (which must vary according to the character of the industry and the ability of its leaders) big-scale organisation does bring increased efficiency; but beyond that point there is no improvement, and there may be deterioration. Andrew Carnegie once said that while it was easy to find men competent to run a million-dollar concern and not very difficult to find men capable of managing a ten-million dollar concern, few were big enough for a hundred-million dollar concern, and almost none for a billion-dollar concern. The criterion is a crude one, and I may have got the figures wrong, but the principle they express is sound: in proportion as a concern increases in size, efficient central control becomes more difficult to secure. We have seen this illustrated, for example, in Lord Kylsant's gigantic shipping combine, which had to be broken up into its component parts before efficiency could be restored.

The greatest danger of these giant concerns is that they inevitably strive after monopoly, or such an

FUTURE FOR DEMOCRACY

approximation to monopoly as will enable them to dominate the market and to fix prices. This tendency is greatly increased when they are protected against foreign competition by high tariffs and other trade barriers; and it is in part because this country has adopted protection that we have recently seen so marked a movement towards monopoly or quasi-monopoly. It is true that there is as yet no complete monopoly under a single control in this country, not even in soap or in chemicals. But the worst evils of monopoly may be attained by the organisation of rings and price-fixing agreements, which is much easier when an industry is dominated by one or a few giant concerns.

There are some cases in which monopoly is necessary and even desirable. That is so in regard to some essential public services, which have to be carried on in a uniform and standardised manner, and which have to render services that may not in all cases be remunerative. Rival postal services would be both wasteful and imperfect. It would be impossible to have rival companies authorised to lay down competitive water-mains or gas-pipes in our streets. These may be called “natural monopolies”; and where such conditions exist, it is usually best that the monopoly services should be under public control. There are drawbacks in such an arrangement; public authorities are apt to be both unenterprising and high-handed; but the drawbacks are outweighed by the advantages.

The great bulk of industrial enterprises, however,

ORGANISATION OF INDUSTRY

which are engaged in producing an infinite variety of commodities to meet the varying demands of a free people, are in a wholly different case. For these purposes monopoly conditions are not only neither necessary nor desirable, they are in the highest degree vicious and dangerous. Monopoly—even a partial monopoly—leaves the consumer—and the whole community consists of consumers—at the mercy of the producer. It enables the producer to conceal his own inefficiency, and, if he thinks fit, to suppress new processes and ideas if they are likely to involve him in trouble or expense; it may therefore be hostile to progress. It crushes legitimate competing enterprises by unfair competition, and debars the small man and the young enterprise from rendering the services which they ought to be encouraged to render. It creates a sort of tyranny over the retail distributor. It enriches its controllers at the expense of the whole community. It ought therefore to be resisted by all means possible; and, in a modern community, the exercise of the necessary control ought to be a vital function of the State. Yet, strange to say, the recent trend towards monopoly has not been checked or controlled, but has rather been stimulated and assisted by many forms of State action.

The result of all these developments has been the emergence of a new governing class in this country, which wields a dangerous degree of irresponsible power over the life and activities of the people. It is not the

FUTURE FOR DEMOCRACY

wealthy as such who constitute this governing class, as many unthinkingly assume. The new governing class may best be described as the "Director-class"; and it controls the use, not merely of its own wealth, but of the invested capital of millions. This new governing class is recruited by co-option from several different elements. It includes many men of outstanding ability, especially in the field of finance; and they hold most of the key-positions: the heads of most of the very big concerns are men of great capacity. But the bulk of the director-class consists not of master minds, but of ordinary men, some of them representing amalgamated concerns, some of them selected as large shareholders, or because they are the sons of their fathers, some of them brought in because they are supposed to have influence, economical or political. Many of them are directors not of one concern but of many—of far too many, in some cases, for it to be possible for them to give serious attention to more than a few.

The class of Directors has a great influence over the governing elements of the country. Nearly all the members of the House of Lords, and a majority of members of the House of Commons, especially on the Conservative side, are included in the Directory of Directors; indeed the chance of getting directorships has come to be one of the attractions of membership of Parliament. Although members of the Government may not hold directorships during their term of office,

ORGANISATION OF INDUSTRY

they have usually held such offices before their appointment, and can look forward to holding them again after their retirement. It is not suggested that any corrupt influence is exercised over the organs of Government; but the point of view which prevails among the class of Directors is always sure of a sympathetic hearing in governing circles; and when this influence is added to the direct power which the class of Directors wield through their control of most of the country's industrial activities, it is not an exaggeration to describe this class as a new governing class. Their power is as independent and as irresponsible as that of the feudal baronage in the middle ages. Like the feudal baronage, they have varying points of view, and often conflicting interests; but their outlook is that of a dominant class, and it may well be questioned whether this is in harmony with democracy.

In other respects besides those which have been enumerated, there have been great changes in the economic structure of our society, especially during the last half-century. The most important of these is the growth of the power of the Trade Unions, whose numbers and organisation make them almost a counter-balance of the class of Directors. Their primary function is to protect the rights of the workers, and to bring about an improvement in their conditions; and this function they have, on the whole, admirably performed. But they are hampered by a tradition of hostility to the employer class as a whole, which some-

FUTURE FOR DEMOCRACY

times blinds them to the best interests of their own members, and inhibits them from co-operating to increase the nation's total wealth. This has been intensified since they have become specially associated with, and indeed have won control over, one of the great Parties of the State. Just as the Conservative Party is—half unconsciously—controlled by the Director class, whose outlook is necessarily that of a class, so the Labour Party is—much more consciously—under the control of the Trade Unions, whose outlook also is necessarily that of a class. The Trade Unions have declared war against “Capitalism” as such, without very clearly analysing what exactly they mean by that chameleon word. To-day the British people seem to be almost limited to a choice between these rival class-allegiances; and if it were not the case that the British people seldom allow themselves to be led captive by doctrinaire theories, we might anticipate a clash between rival class-interests for the control of the State. In the main, the growth of Trade Unions has been a very good thing, because it has given to the great body of workers some (though not enough) control over the conditions of their life, and some (though not enough) security for just treatment. It is to be wished that the power of the Trade Unions could be used in a less negative and more constructive way than hitherto.

Finally, one of the greatest changes in our industrial system during the last half century is that the State has

ORGANISATION OF INDUSTRY

been playing an increasingly important part in the regulation of industry. Some old-fashioned people deplore and condemn this change. They are the defenders of *laissez-faire*; but *laissez-faire* is dead and gone for ever. The primary function of the State is to secure peace, liberty and justice for all its citizens; and this obligation applies in the economic sphere as much as in any other.

In the performance of this function, the State has (through Factory Acts and in other ways) defined the conditions under which industry may be carried on; it has (through the Company Acts, which are, as we shall see, susceptible of great improvement) given the great privilege of limited liability, and defined the conditions which joint-stock companies must fulfil; it has (through the Trade Board Acts) supplemented collective bargaining by defining minimum wages in unorganised trades; it has taken over the control of various "natural monopolies", and put them under the management either of the Government, or of municipalities, or of statutory organisations; it has assumed responsibility for the organisation of transport throughout the country. The catalogue might be much extended. But in all these cases, except the case of "natural monopolies", the State has limited itself to *regulating* the conditions of industry; it has not taken over the responsibility of conducting it. This function of regulation can be, and ought to be, greatly extended; it is beyond question a proper function of the State.

FUTURE FOR DEMOCRACY

More recently the State has assumed further functions, about the value and results of which there is more room for doubt. It has tried to define the character and direction of our oversea trade, by means of tariffs, quotas and other restrictions, and in doing so has favoured one set of trades at the expense of others, with results which have been examined in an earlier chapter (Chapter III). It has also set itself to foster particular industries, notably in agriculture, at the expense of the community as a whole, and to fix prices—which no Government has ever really succeeded in doing. It has therefore encouraged industrialists to rely upon Government aid, instead of relying upon their own energy and initiative.

Whether we approve of these experiments or not, it is apparent that the part played by Government in the organisation of industry is to-day vastly greater than it has ever been before, and is likely to increase in importance.

The various changes which we have reviewed:—the new character of property, divorced from responsibility; the growth of large-scale production and distribution, and the growing tendency towards monopoly; the emergence of a new governing class of directors, largely identified with a particular political party; the growth of the power of the Trade Unions and their identification with another political party; and the immense increase of State intervention in industry—all these things, taken together, amount to a transforma-

ORGANISATION OF INDUSTRY

tion of our industrial system which largely throws out of date old theories and projects.

Facing the facts as they are, how are we to make the best of them for the creation of a genuinely free society? And what are the attitudes of various schools of thought regarding them?

2

People of conservative minds are always prone to idealise, to excuse, or to defend things as they are. It is therefore unreasonable to expect from Conservatives any searching analysis of the state of things we have described, or any bold attempt to amend it.

But there are others who are unhappy about things as they are, and who have remedies to propound. Something must be said about two of these groups.

The first consists of those who call themselves Distributists, and who looked to the late G. K. Chesterton as their prophet. They hold that a society cannot be really free unless not only property, but responsibility for its use, are widely distributed. They therefore deplore, and would like to reverse, the process whereby ownership has been divorced from responsibility, and the independent man with small resources has been swamped by large-scale enterprises. They champion the small-holder against the big farmer, the small shop against the big store or the multiple shops, the small factory or workshop against the vast mechanised concern. They are the sworn enemies of monopoly,

FUTURE FOR DEMOCRACY

and profoundly distrust the growing intervention of the State in industry—except, perhaps, for the protection of the small man.

There is unquestionably need for the protection of modest enterprises against the unfair competition and the crushing pressure of gigantic and quasi-monopolistic concerns; and any sound system must meet this need. But it is futile to imagine that the development of large-scale production and distribution can be reversed. It is growing because it is giving better and cheaper service to the community. There is still room for the small shopkeeper, particularly if he specialises and knows his business; there is still room for the individual bootmaker or tailor, and even for the individual potter, handloom weaver and cabinet-maker if they can give a distinctive and an artistic quality to their wares. But over the greater part of production and distribution the large-scale system is bound to prevail. The multiple shops, for example, by skilled buying, ought to be able to supply their customers with cheaper, fresher and more varied goods than the small shopkeeper who does not specialise. The small shopkeeper to-day is, indeed, in the same plight as the handloom-weaver of a century ago who struggled in vain against the large-scale production of the factories; and every month sees hundreds of small people sinking their savings in little shops, most of which fail, even though their owners work night and day for very little return. They have a right to be protected so long—

ORGANISATION OF INDUSTRY

but only so long—as they give service as good as, or better than, their more powerful neighbours. But it is idle to suppose that for their sakes we should fight against large-scale production and large-scale distribution, which are making everything cheaper and more accessible for the mass of the population. The proposals of the Distributists therefore supply no solution for our problem.

A very different solution is proposed by the Socialists. Impressed by, and hating, the immense power wielded by the Director-class (which they identify with “Capital”), and believing that this power is habitually used in their own interest by the class who wield it, they propose to destroy this power by transferring the control and conduct of all forms of production or distribution either directly to the State, or to special organisations created and controlled by the State, and not working for profits. They are persuaded that the existing tendency towards monopoly, and the increasing scale of productive enterprises, are in fact preparing the way for this solution, which, they believe, must inevitably come about if democracy is not to give way to plutocracy, or the rule of mere wealth. And they point triumphantly to the success of a number of public services to which it is already applied—most of which are “natural monopolies”, and none of which is exposed to foreign competition.

These views are now held by a large and growing number of people, and they have been officially adopted

FUTURE FOR DEMOCRACY

by one of the great parties in the State. They must therefore be treated respectfully. We must ask how the Socialist plan would affect the growing tendency towards monopoly, with all its evil consequences; and how it would affect the growing power of a limited Director-class, whose power comes from their control not only of their own money, but of the money of millions of investors.

In place of the partial and imperfect monopolies that exist to-day, the Socialist plan would establish in every industry a complete monopoly, enforced by law. It is useless to argue that monopoly would no longer be dangerous if it was controlled by the State. Its main defects are inherent, and independent of what power controls it. One of them is the restriction of competition, which is the best means of securing efficiency and of encouraging enterprise: competition would be not merely restricted, it would be absolutely prohibited in the Socialist State. Another is that the directors of a monopoly can conceal their inefficiency at the expense of the consumers, and the more complete the monopoly, the more this is so: only under Socialism would monopoly be absolutely complete. Again, the directors of a monopoly are often tempted to buy up and suppress new processes and ideas, to avoid the cost and trouble of introducing them, with the result that energy and inventiveness are discouraged. In the Socialist State the motives for discouraging new ideas would be strengthened, because—spending public money—the

ORGANISATION OF INDUSTRY

managers of the State monopolies would be afraid of being charged with waste; and energy and inventiveness would almost be limited to a small official class. In short, the worst evils of monopoly (which are now only partially displayed) would be intensified under Socialism. It may be said that the quest for profits would be diminished. But the State would need enormous profits to pay the dividends due on the bonds it had issued when the industries were taken over; and, if efficiency declined under State control (as it probably would) the only way of making the necessary profits would be to plunder the consumer by high prices, which would be very easy, in the absence of all competition, foreign or domestic.

We must not forget that the very existence of this country depends upon its oversea trade. We are told that, under Socialism, all our foreign trade would be managed by Import and Export Boards: that is to say, groups of officials would decide what we were to buy from this country or that, and how much we were to pay for it. It is unlikely that, when the British Government was known to be in the market, it would be able to get supplies at as low a price as individual merchants, always hunting for bargains. Moreover, what room for disputes there would be with other countries which could claim that we were deliberately trying to ruin them by not buying their goods! Even more than protectionism, Socialism would be apt to create the atmosphere from which war springs.

FUTURE FOR DEMOCRACY

What would the Socialist scheme do to reduce the power of the small Director-class who wield almost irresponsible power through the control of vast masses of capital, not their own property? It would transfer the control, not of the bulk, but of the whole, of the nation's capital to another small class, a class of officials acting in the name of the State. The power which this class would wield would be so overwhelming that it would easily be turned into a dictatorship, as it has in Russia. One of Trotsky's chief complaints against Stalin is that he has built up a bureaucracy that is far more independent of the people, and wields a far more complete control over their lives, than the old bureaucracy of the Tsars, which was, after all, qualified by the power of the nobles and of the capitalist *bourgeoisie*. This result might well happen in any country which adopted complete Socialism. Moreover, the new bureaucrats would necessarily be largely drawn from the old class of Directors—Lord Ashfield remained in control of London Transport when it was nationalised. It may be said that the bureaucrats would be securing the interests of the whole nation (as they conceived them), and not merely the interests of shareholders; and that abuses would be prevented, in a democratic country, by the ultimate control of Parliament. But Parliament is already reduced almost to impotence by the vast mass of business for which it is supposed to be responsible, but to which it cannot adequately attend. If responsibility for the whole

ORGANISATION OF INDUSTRY

industrial life of the country were added to its already overpowering burden, it would be crushed; and the system of democratic government would break down.

In an earlier chapter (Chapter V) we came to the conclusion that Socialism could not bring about a more just distribution of property, and that other methods must be used. The arguments just adduced drive us to the conclusion that Socialism is equally unable to create an efficient, just and democratic method of industrial organisation. Here, also, other methods of dealing with the problem must be sought.

3

The defects of the existing system of industrial organisation are partly due to the way in which the State has used its powers of regulation. In the Companies Act it established the system of joint-stock with limited liability, which made possible large-scale enterprises, led to the divorce of ownership from responsibility, and, in effect, created the class of Directors with irresponsible control of great masses of capital. What the State has enacted, the State can alter; and the first point of attack in a reform of industrial organisation must be an amendment of the Companies Acts.

In the first place, there should be provisions regarding the functions and personnel of directorates, in view of the vast powers they wield. A strict limitation

FUTURE FOR DEMOCRACY

should be put upon the number of directorships which any one man may hold, and it might well be provided that a majority, at least, of every Board should consist of men who were giving the main part of their time to the service of the Company. This would profoundly change the character of most Boards of Directors, but it would not decrease their efficiency.

Next, measures should be taken to prevent the misleading and uninformative prospectuses, reports and statements of accounts that are often issued. For this purpose very heavy responsibilities should be imposed upon auditors; and it would be desirable that auditors should be given a professional organisation, like those of doctors and lawyers, which would be empowered to disqualify them if they were guilty of any professional misconduct, such as certifying a misleading prospectus or balance-sheet.

These provisions apply to all companies. But it is with the big companies that we are chiefly concerned: small companies ought to be left with a greater freedom, since they are mainly responsible for new and venturesome undertakings which may lose money for some years before they are established. It is the big concerns that chiefly attract ordinary investors; it is they that dominate our economic life; it is they that strive after quasi-monopolistic powers.

A new Companies Act ought therefore to require that all companies with more than a certain amount of capital, say £1,000,000, including their subsidiaries, should

ORGANISATION OF INDUSTRY

register in a special category, under the name of Public Corporations, or some such title. They should be required (as the Railway Companies have been since 1844) to publish much more detailed accounts than ordinary companies do, both for themselves and for their subsidiaries: there is far too much secrecy in British business, far more than in America. Furthermore it should be provided that any persons who could show that any of these Companies was using its powers unfairly, either to plunder the consumer or to crush out competition, should be empowered to apply to the Board of Trade (or preferably a Ministry of Industry) for an inquiry by a special tribunal, which should have the reserve power of fixing prices, as the Railways and Canals Commission can do in the case of the Railways. This would be an effective safeguard against the abuses of monopoly, or quasi-monopoly, powers; and the Ministry could guard against a multiplication of unreasonable enquiries.

Special legislation would probably be necessary to deal with another monopoly danger, that of price-fixing rings and agreements. These are not necessarily evil. An agreement as to prices may in some circumstances be advantageous. But it should be publicly made and publicly justified. The right way of dealing with the problem is to authorise the concerns in an industry to make them, provided that there is a sufficient majority, and to make them legally binding for a definite period if they have been approved by a proper authority.

FUTURE FOR DEMOCRACY

But secret agreements not made in this way should be actionable at law, as conspiracies in restraint of trade.

To return to the Public Corporations: in their case there is strong justification for some limitation of profits. The shareholders in these concerns have a right to a "gilt-edged" rate of interest, plus what may be called a "risk-rate", but they have no right to more. They have no right to very high dividends, or to the free distribution of "bonus" shares. If new capital is created out of profits, it ought to be distributed, not among the shareholders, but among those whose brains and hands have contributed to the concern's prosperity. And, beyond a certain rate of dividend, all profits should be equitably divided among the workers and the shareholders. On these lines compulsory profit-sharing and ownership-sharing should be imposed upon all Public Corporations. The effects of such a limitation of profits would be, not only to bring about a better distribution of wealth, it would discourage "speculation for a rise" in the stock-market; it would weaken the motives for heaping up great profits, and therefore for aiming at monopoly, and encourage the big concerns to share their prosperity with their employees (through better wages) and with the consumers (through lower prices). And the example thus set in the big concerns would be likely to spread through the range of industry.

The distribution of surplus profits among those who

ORGANISATION OF INDUSTRY

work with brain or hand in a concern, and, still more, the distribution among them of new capital created out of profits, afford the best means of bringing about a better distribution of wealth, of creating a new nexus between ownership and responsibility, and of shaking loose from the theory which has been the most vicious element in capitalism—the theory that every industrial concern is exclusively the property of those who have invested capital in it, even if they feel no responsibility for its success, and that those who give their lives to its service are only the paid servants of the owners. This theory was tenable before the days of big joint-stock concerns, when the liability of the owners was unlimited; it is no longer tenable now that ownership has been divorced from responsibility.

The joint-stock system lends itself readily to the development of profit-sharing and ownership-sharing, and it ought to be used for that purpose. An illustration of the way in which the system may be used can be drawn from a highly successful experiment made by a great American concern. All the existing shareholders were turned into preference shareholders at a fixed rate of dividend. Then ordinary shares of no par value were issued to all who were actively engaged in the concern in proportion to their rate of pay; they thus became the legal owners of the business. The profits, after the preference dividend has been paid, were devoted, with the consent of the ordinary shareholders, partly to paying a modest dividend on the ordinary

FUTURE FOR DEMOCRACY

shares, and partly to buying out the preference shareholders, so that ultimately the whole concern should be vested in the ordinary shareholders, *i.e.*, the total number engaged in the concern. Profits for these purposes were earned on a large scale, because a new keenness and zeal took possession of the whole staff now that they felt they were working for themselves, and not merely for absent shareholders.

This precise method would perhaps only be practicable in concerns like that referred to, in which there was a large proportion of employees with some executive responsibility, to whom voting rights were confined. But some approximation to it, or modification of it, ought to be possible in every concern. The general adoption of this method would indeed transform and democratise the whole structure of our industrial system, and do more than anything else to put an end to the destructive strife between “capital”, management and labour which is largely responsible for our failure to produce enough wealth to give a good livelihood to all who are engaged in industry. Unhappily the system of co-partnership is suspiciously regarded both by the director-class and by the Trade Unions: by the former because they are loth to share their power and their profits; by the latter because they fear that profit-sharing might undermine the loyalty of the workers to their Trade Unions, and give new strength to the “capitalist system” which they hope to destroy.

This affords an outstanding example of the way in

ORGANISATION OF INDUSTRY

which the tradition of an endless war between capital and labour has vitiated the policy of the Trade Unions, and blinded them to the best way both of improving the conditions of life of their own members, and of increasing their power. It is obvious that high wages and short hours can only be economically possible with the maximum efficiency of output and avoidance of waste. Employers ought to recognise that the highest attainable level of wages should be a primary object of policy, because only so can the nation's purchasing power be kept at a high level. Trade Unions ought to recognise that the maximum efficiency of output should be a primary object of policy, because only this will make high wages possible. If both sides could co-operate upon this two-fold basis, instead of regarding one another as enemies, progress would be rapid.

An opportunity for reorganising industry on this basis was offered at the end of the war, when the scheme for setting up Joint Industrial Councils (Whitley Councils) in all industries was issued. It came to nothing, except in a very few industries, mainly, perhaps, because of the surviving atmosphere of mutual distrust. But there were other reasons. One was that the Whitley Councils, unlike the government-organised Trade Boards, had no means of obtaining legal sanction for their decisions. The other was that neither side in the discussion had access to adequate facts and figures about the conditions of the industry, the volume of capital employed, the average rate of profits, the cost

FUTURE FOR DEMOCRACY

of materials, the level of prices at home and abroad, and so forth.

These drawbacks could be removed without difficulty. Joint Industrial Councils could be empowered to get legal sanctions for their decisions, by the same method as the Trade Boards. And a statistical department attached to a Ministry of Industry could supply adequate material of an impartial kind.

If this system of joint consultation of the problems of each industry could be got going under more favourable auspices, the results might be of the highest value. A real measure of industrial self-government would be attained. And, in particular, the general adoption of the methods of profit-sharing and ownership-sharing, which would transform the whole atmosphere of industrial life, might be facilitated. One of the obstacles to its development is the distrust of the Trade Unions. This could surely be overcome if the Trade Unions, through the Joint Industrial Councils, were called upon to join in passing schemes of profit-sharing suitable for each industry which, when agreed, could be imposed by law, like other agreements, upon every concern in the industry.

The establishment of a system of joint consultation upon the affairs of each industry as a whole would imply a real advance towards industrial self-government. But this is not enough. There ought to be, in every individual concern, as there already is in some of the more progressive, a regular system of co-operation and

ORGANISATION OF INDUSTRY

consultation between the management and the various groups of employees, especially in the framing of working-rules, in the enforcement of discipline, and in the adjustment of dismissals so as to cause the minimum of suffering. This can best be attained by the establishment of a Works Council in every concern of more than a certain size. The rules under which these bodies would work would have to be carefully framed so as to ensure, on the one hand, that the consultation was real, and that the Councils had genuine powers; and, on the other hand, that these powers did not impair the necessary authority of the management, without which no concern can work well. But experience has already shown that these difficulties can be overcome; and the time has come when the establishment of Works Councils might well be imposed upon every factory, mine or workshop with more than (say) fifty employees. The kind of powers which these bodies ought to possess have been well defined in that searching survey of British industrial problems entitled *Britain's Industrial Future*.

The various measures and policies which we have summarised would set on foot a system of industrial organisation that could not be described as "capitalism", because it would not accept the central "capitalist" doctrine that every industrial concern is the absolute property of those who have invested capital in it, to the exclusion of those who have invested in it their brains, strength and skill. But it also could not be described

FUTURE FOR DEMOCRACY

as "Socialism", because, although its working would be in many ways *regulated* by the State, it would not be directly controlled or operated by the State.

This system would bring under control the largely irresponsible power of the Director-class. Without trying to prevent the development of large-scale productive enterprises, it would effectively check the dangerous trend towards monopoly. It would strive to substitute for the existing friction and conflict between "capital" and "labour" an organised co-operation between the necessary partner-factors in industry, both in the regulation of conditions in industries as a whole, and in individual factories and mines. It would be a mixed system, a system of free enterprise not dominated by great wealth or restricted by the power of monopoly, but subject to watchful regulation by the State, in the interests of freedom.

The functions thus assigned to the State would be so numerous and so varied that a special organisation would be needed to exercise them; and for this purpose a Ministry of Industry ought to be established. It should be assisted by a strongly constituted Council of Industry, with advisory functions. If a price-fixing agreement were reached by a properly constituted body, it should be referred to the Council of Industry for report, before being given legal sanction by being laid upon the table of the House of Commons, because the fixing of prices in one industry materially affects the interests of other industries. For the same reason,

ORGANISATION OF INDUSTRY

decisions of a Joint Industrial Council regarding rates of wages or hours of labour should be laid before the Council of Industry for report, since decisions of this kind might affect the whole industrial world. But the Council of Industry ought not to have the final or decisive word. This would ultimately rest, as it ought to rest, with Parliament, where assent would be required before any of these decisions obtained the force of law. This would usually be given by a formal endorsement after the proposal had "lain on the table" for a prescribed number of days; but the report of the Council of Industry, attached to the proposal, would ensure that it would not be lightly endorsed if there were strong reasons against it.

Here, then, is the framework in outline of a method of industrial organisation which would not be dominated by the irresponsible power of a single class, which would preserve the maximum of freedom and elasticity subject to the regulating power of the State, and which would preserve the advantages, while guarding against the dangers, of the methods of joint-stock trading whereby ownership has been divorced from responsibility. It would be far removed from *laissez-faire* individualism, but it would avoid the dangerous rigidity of Socialism as ordinarily conceived. It would not attempt to define for all time the methods of industrial organisation, which have changed rapidly in the past, and are likely to go on changing in the future. No generation of men dare foretell the future forms of

FUTURE FOR DEMOCRACY

human society. The best that any generation can do is to create barriers against the upgrowth of dangerous forms of irresponsible power, to preserve liberty and elasticity, and (subject to these safeguards) to leave our social order free to develop.

CHAPTER IX

THE LAND

1

WE have laid it down (Chapter VII) that it must be the duty of the State to see that the nation's resources are wisely and fully utilised in the interests of the community as a whole. This obligation applies with supreme force to the utilisation of the land. For access to land is indispensable for all activities whatsoever; and, since its amount is strictly limited, and cannot possibly be increased, it is of fundamental importance that it should be wisely and justly used.

We may distinguish three ways in which land is used —as Site, as Soil and as Surface. It provides the *sites* for all the industrial and social activities of the community; for their dwellings, their factories, their roads, their pleasure-grounds, their churches and schools and theatres. It provides the *soil* which is the raw material for agriculture and food-production. And it is the *surface* through which access can be got to the country's mineral wealth. These three aspects of land-utilisation must be separately considered.

Hitherto we have, in the main, trusted to the private ownership of land to bring about its right utilisation.

FUTURE FOR DEMOCRACY

We have assumed that the owner of land possessed the right to extract the largest payment he could for the use of his land for any of these purposes, and that in pursuing his own profit he would make sure that the land was put to the most advantageous use. We have allowed him to charge the highest price he could get for the sites of dwelling-houses, factories, etc., and to hold back land from utilisation in the hope of getting a better price. We have trusted him to give leadership and to supply the necessary equipment to his tenants on agricultural land, in the belief that in this way the largest product would be assured. We have assumed that he was the owner of all minerals under the surface of his land, whether he knew of their existence or not, and that he had the right to impose his own terms upon those who undertook the enterprise of extracting the minerals, and to take (in the form of royalties) the largest share he could of the value of the minerals when extracted, without necessarily contributing anything at all to the process of extraction.

We have been oblivious of the fact that practically the whole value of land, for whatever purpose it is used, is due to the presence and activities of the community, and that the landowner seldom contributes anything to the creation of this value. It is true that in the use of land as soil, many great landowners have in the past rendered services of high value, providing the fixed capital necessary for the working of the land, and giving in many cases enlightened and intelligent leadership,

THE LAND

like that which was afforded in the eighteenth century by Coke of Holkham. It is true, also, that in rare instances town landlords have used their power, as the Dukes of Bedford did in laying out the squares and gardens of their Bloomsbury estate, to make intelligent plans which have increased the amenity value of some areas. It is true, finally, that the traditions of some landowning families, and their relations with the people on their estates, have often had fine elements, though they have been decaying steadily, and since the war rapidly.

But when all this is said, the unrestricted private ownership of land has produced many evils, and is incompatible with a genuinely democratic society. We have been gradually breaking away from the old doctrine that a landlord has "a right to do what he likes with his own", and many restrictions have been imposed upon landowners. We are beginning, also, to realise that ownership of land, especially urban land, has contributed very greatly to the enrichment of a small class, and has accentuated the gross maldistribution of wealth. It is monstrous that when a great public improvement has been carried out, such as the opening of a new railway line or a new road, the immense increase in the value of the neighbouring land which this brings about accrues entirely to the owners of the land, whereas it might have been used to pay the whole cost of the improvement. The time has long since come when we ought to envisage the whole problem afresh, and to ask

FUTURE FOR DEMOCRACY

ourselves what should be the attitude of a free people towards the ownership and use of the land upon which all their activities depend.

Superficially the easiest way of dealing with the problem is to say, "Let us abolish private property in land. Let all the existing owners be bought out at a fair valuation, and let the State assume the direct responsibility for putting the land to the best use, whether as site, as soil, or as surface."

But this method has many drawbacks. It would create an immense class of idle *rentiers*, without responsibility. It would strain the credit of the State. It would suddenly impose upon the State a colossal responsibility, which it could not well perform, and might cause the most serious dislocation and disorganisation throughout the country. It would entirely disregard the intense pride in the ownership, or the secure possession, of a bit of land, even if it be only a house and a garden, which actuates many thousands of people and provides a powerful motive to energy. Beyond a doubt, the State must assume a greater control over the use of land than it has hitherto been willing to exercise; but this method is too sudden and too drastic, especially as all that is required can be done otherwise.

Liberalism has long advocated another method of dealing with the problem, which makes use of the instrument of taxation. It would draw a distinction between the value of the land as a site, and the value

THE LAND

accruing from the uses to which it is put; and it would impose taxes and rates upon the land distinct from those imposed upon the buildings erected upon it. The land, whether in use or not, would be assessed at what it would fetch if sold by a willing seller to a willing buyer; and, if it was required for public purposes, it could be acquired at the value at which it was assessed plus a reasonable compensation for disturbance. Thus an owner who kept land out of use, or allowed it to be occupied by bad and sordid property, because he was hanging on for a rise, would have to pay substantial dues on it while it lay idle, and would have the strongest motives for seeing that it was put to good and profitable use. This method is in use in several countries; it has been proposed several times in this country, and once found its way into a budget;* but it has always been fiercely opposed by all the landowning interests and their allies. With it would be linked a "betterment tax" which would take for the public a large share of all increases in the value of land which were due to public improvements.

This system of taxation is essentially just; it would make land more accessible for necessary purposes; it would provide a large source of revenue which would make great improvements possible; and it would check the creation of great fortunes, at the expense of the community, by persons who have done nothing to earn them.

* The Snowden budget of 1930.

FUTURE FOR DEMOCRACY

2

A sound system of taxing and rating land-values, though in itself just and necessary, would not ease, but might even, if not supplemented by other measures, tend to accentuate a growing evil which must be tackled: the haphazard and unregulated distribution of industry and population over the country.

The beauty and amenity of the countryside are being progressively spoilt by sprawling rashes of red brick, which surround all our towns, but especially London, and which often prevent the proper utilisation, for agricultural purposes, of the intervals between them. Large regions which are equipped with all the apparatus of urban life, schools, churches, shops, etc., are being gradually deserted by their industries, which are drifting into new regions where all this apparatus has to be created afresh; and while the industries move, the men remain behind, derelict. In particular, there is taking place a terrifying and most unhealthy agglomeration of population in the metropolitan area; and London is dominating the life of the country more and more completely, and draining its vitality, economic, intellectual and spiritual.

All our towns, but especially those that were built during the early stages of the industrial revolution, need to be reconstructed. This can only be done gradually, but it cannot be done at all unless there is an accepted plan to which all building must conform. The slums have to be removed: we are tackling that problem,

THE LAND

though with perhaps too narrow a view of what constitutes a “slum”, and certainly without thinking out clearly how the displaced population can be provided with suitable accommodation that is within their means, and within easy reach of their work. Industrial establishments ought to be located in defined areas; residential districts ought to be placed in convenient relation to them; parklands and recreation grounds should surround the urban area; and haphazard, sprawling development which impedes agricultural development, ought to be strictly controlled. This involves a large degree of interference with the right of the owners of the land to “do what they like with their own”.

We have given powers to our municipalities to make plans for their future development. But these powers are little and tardily used. We have given powers also to neighbouring authorities to co-operate in making regional plans, which are especially necessary in areas that are largely urbanised, such as East Lancashire, the West Riding or Tyneside. But these powers are still less used. And meanwhile haphazard development goes on apace; and damage is being done that cannot easily be undone. Some central guidance must be given to stimulate and co-ordinate these efforts: piece-meal, sporadic, and unco-ordinated planning may be worse than no planning at all.

Again, planning on a national scale is needed. Just as it should be possible to define an industrial area in a

FUTURE FOR DEMOCRACY

town, so it should be possible to define and limit the principal industrial areas in the country. Where there is no strong economic reason why a new concern should be located in a particular district, it should be possible to find means of deterring its organisers from planting it in the overgrown metropolitan area, where the problems of transport become more and more acute, and of encouraging them to go into one of the areas where all the necessary equipment and transport facilities already exist, and where large numbers of unemployed men are longing for work. The possibility of doing this is largely influenced by the incidence of the burden of rates, which are heaviest in the most depressed areas: the rating reform of 1929 did little to amend this evil. If a well conceived planning policy were systematically pursued, the unhealthy growth of the London area might be restricted.

The growth of cities to a size so great that they cease to have a civic consciousness is a real danger to national life; and it would be far better if, instead of allowing the big cities to sprawl aimlessly over the surrounding countryside, we could encourage the creation in rural surroundings of subordinate units with a life of their own, with their own industrial areas and their own residential districts and civic centres: in other words, if we could bring about the growth of "satellite towns" instead of permitting great amorphous built-up areas to come into being. This method has been tried, by private enterprise, in two interesting cases, Letchworth

THE LAND

and Welwyn ; it is being tried by a great municipality—Manchester—in the development of Wythenshawe. This is far better than the creation of such huge residential areas as the London County Council's housing estate of Becontrec in Essex, where 25,000 people have been brought together far from the places where they work, so that too large a proportion both of the income and of the leisure of the wage earners is consumed in travelling to and from their work. But the planning of “satellite towns” with a civic sense of their own can hardly be expected either from town-planning or even from region-planning authorities. Such a scheme could probably only be carried out under national guidance, and with the aid of capital provided by the State.

Again, it is of urgent importance that the most beautiful regions of our country should be kept unspoilt. The National Trust has done great work in this field ; but the acquisition of small areas, a few hundred acres here and a few hundred there, is not enough. What is needed is that the wilder areas of moor and mountain should no longer be reserved for the expensive sport of the few, but should be thrown open for the enjoyment of the many.

Furthermore, regions of exceptional beauty should be brought under special guardianship and control, which would prevent their defilement. This is what is meant by the creation of National Parks, in such regions as the Scottish Highlands, the mountainous parts of Wales, the English Lake District, the Derbyshire Dales,

FUTURE FOR DEMOCRACY

Exmoor, Dartmoor, the Cotswolds and the highlands of Surrey and Sussex; some of these lovely regions are being rapidly vulgarised and suburbanised, and the harm, once done, is irremediable. The creation of National Parks does not mean that these regions would be closed to tillage, or to human habitation, or even to industrial uses. But it does mean that their development would be regulated, by properly constituted authorities, with a view to æsthetic as well as economic considerations; and therefore that the right of owners of land in these districts "to do what they liked with their own" would be severely restricted. Like the "forests" of the Norman kings, these districts would be subject to a special jurisdiction; but its purpose would be to serve, not the sport of kings and courtiers, but the healthful access of the people to the beauties of their own land.

For all these purposes it is necessary that we should have some competent central authority. The only central authority that now exercises any power in this wide field is the Ministry of Health; and that department already has to deal with functions so wide and so varied that its responsible chiefs cannot give equal attention to them all. The section of the Ministry that deals with the planning is, moreover, very small, and is concerned almost wholly with the criticism of town-plans—a function which cannot be well performed except in relation to a broad and generous conception of what geographical planning means. In truth, the

THE LAND

task of planning the distribution of industry and population, and of safeguarding the beauty of our country, is a task so great, of such vital importance for the future, and so distinct from the other functions of government, that it might well have a Ministry of its own, advised by a competent Advisory Council. Failing this, there should at least be an independent Commission of Regional Planning, reporting to the Ministry of Health. It should be charged with the duty of working out continuously what may be called a "master-plan", which would correlate local plans, and deal with needs too wide for local determination. The duty of such a body would not be to override or displace local authorities, but to stimulate and advise them. It would only have such executive powers as Parliament thought fit to entrust to it, for such purposes (for example) as the administration of National Parks. For the most part it would be a thinking organ, advising the nation and its Government as to the best ways of using our national heritage to the best advantage, without waste or defilement.

3

When we turn from considering the land as the site for all our activities to considering it as the soil from which we can get foodstuffs and some raw materials, it is evident that the old landlord-and-tenant system is breaking down, not because the landlords are exploit-

FUTURE FOR DEMOCRACY

ing the necessities of the community, as is the case in the towns, but rather because they are no longer able to perform the functions which they once performed. In some cases the owner of a rural estate, drawing his income mainly from industry and from the towns, regards the estate chiefly as providing him and his friends with sports and other amenities; the sense of responsibility for getting the best results out of the land has been greatly weakened by the social habits of a town-dwelling people. Even where this sense of responsibility survives, as it does in very many cases, it often cannot be satisfied; because the burden of death-duties and taxation have disabled landowners who have no other sources of wealth from doing their duty by the land: they can no longer maintain its equipment at a proper level. In truth, death-duties and other causes have drained agriculture of capital; it has to be recapitalised. And whenever the State tries to come to the aid of agriculture by such methods as relieving it of the burden of rates, or subsidising its products, the result is always that in the end the main advantage comes to the landlords, because, whenever the leases fall in, the rents offered are increased by the amount of the reliefs thus afforded by the State.

It is evident, then, that we must find a new system which will give better results than the landlord-tenant system is now capable of doing. But before deciding what form this new system ought to take, we must be

THE LAND

clear as to what we want agriculture to do for us. Plainly we want it, first, to provide the maximum amount of food which it can produce at prices within the reach of our people; we want it to improve the nutrition of an under-nourished people. And, secondly, we want it to afford a good livelihood to all whom it employs, and not only a good livelihood, but a spur to energy, and the hope of being able to improve their positions. According to Mr. Rowntree, the minimum wage which will support a rural family of normal size is 41s. a week, at the prices of 1936. That is far above the average wage of agricultural labourers to-day. But something like that figure ought to be a minimum wage for agricultural workers.

Can a system be devised which would make this possible, as the present system manifestly does not? And can this system also provide the spur to ambition and the hope of progress, which are necessary if the rural population is not to go on drifting into the towns? The present system manifestly does not afford such opportunities.

We must also ask what sorts of foodstuffs and other products we want the land to produce. We cannot in any case hope to be able to produce at home more than about half of the foodstuffs we require—much less than half of what we would require if our people were adequately fed. Half of our food must in any case come from overseas. Can we choose *which* half?

It seems clear that we ought to aim at producing at

FUTURE FOR DEMOCRACY

home the things which are best eaten fresh, and in which we have for that reason a natural advantage against oversea competition. These things are meat, milk, eggs, poultry, vegetables and certain fruits: the very things in which, according to the experts, the nutrition of our people is most defective.

On the other hand, we ought to buy from oversea the things that are best produced oversea, and that do not need to be eaten fresh, but can be stored for long periods without damage. The most outstanding examples of this type of food are wheat and sugar. We cannot produce wheat as good as the hard wheat which Canada sends us; and it can be stored without damage. We cannot possibly produce sugar in competition with the tropical sun; when we try to do so, we have to find out of the taxes as much as the selling-price of the sugar we grow, if it is to be made possible to grow it.

A policy which aims at encouraging the production at home of this second class of foodstuffs, and at increasing the amount of land devoted to them, is clearly a very mistaken policy; yet it is the policy which the British Government has pursued. It is sometimes said that this is necessary as a safeguard against war. But if we fear war, we can store wheat and sugar; we cannot store the more perishable foodstuffs without destroying much of their value, and to decrease the amount of land devoted to the production of perishable foodstuffs in order to increase the

THE LAND

amount devoted to storable foodstuffs is the height of folly, even from a militarist point of view.

If we are going to devote our cultivatable land mainly to animal husbandry, and to the intensive cultivation of fruit and vegetables, we ought to aim at making the feeding-stuffs, the fertilisers and the implements necessary for these purposes as cheap and abundant as possible. British farmers already use far more grain as feeding stuffs for their poultry and cattle than they sell in the market for human consumption. The way to make these things cheap and abundant, as the Danes long ago recognised (this was the foundation of their agricultural prosperity), is to admit them freely, and to take advantage of the lowest prices the world can offer. This is as true of fertilisers and implements as it is of feeding-stuffs. But the British Government has firmly refused to recognise this fact; and so have the British farmers.

The second requisite of a successful system of agriculture is that the cultivator should get his fair share of what the ultimate consumer actually pays for the goods he produces. At present he appears to receive only about one-third. One-half would make him prosperous. There must always be a good deal of waste in the marketing of perishable goods, but scientific methods can reduce it to a minimum. The cost of transport also must be substantial; but it is a sign of bad organisation that the transport of British products to near-by markets is often higher than the

FUTURE FOR DEMOCRACY

cost of transport from foreign countries to the same markets.

It is clear that the State ought to be able to give great aid in the systematic collection and marketing of agricultural produce. The British Government has been rightly devoting a great deal of attention to the working out of marketing schemes. But its aim has been to increase the return to the cultivator rather by artificially raising prices (which leads to diminished consumption) than by reducing to a minimum the costs of distribution, which are needlessly great. It is evident that marketing plans ought to be conceived in the interest not merely of the producer but of the consumer. The lower the price at which the consumer can buy, the greater will be his demand; and so long as the producer gets a fair return, a reduction of the cost of distribution and an increase in the efficiency of production are the prime objects to aim at. But, as things are now, the more the farmer gets, the more his rent is apt to go up.

We are therefore forced back upon the question: How can the system of land-control be reorganised so as to make possible the kind of agricultural development we have indicated?

In a genuinely free society, it seems suitable that the responsibility for the development of agriculture should be thrown upon the agricultural community, backed and guided by the State. Under the supervision of the Ministry of Agriculture, there should be in every county

THE LAND

a County Agricultural Committee, directly elected by all sections of those actually engaged in agriculture. It should be the duty of this body to provide scientific guidance to all cultivators; to organise co-operative marketing, both for the purchase of the farmer's requirements at the cheapest rates, and for the collection and sale of his products; to fix rates of wages, aiming at a real living minimum; to ensure that every labourer could have, if he wanted it, a plot of land of his own at the lowest practicable rent, on which he could grow food for his own consumption; and to meet every demand from qualified persons for small holdings or family farms of a size suitable for the kind of work proposed to be undertaken.

For these purposes, the Committees would have to acquire land. Land transferred to the State in payment of Death Duties (and such transfers should be encouraged) should be put under their administration. They should be entitled to take over, at a capitalised rental value, any estates that were badly managed or under-cultivated; and they should be empowered to buy other estates as they were needed.

In course of time, most of the agricultural land in their counties would probably pass under their control. They should let it to tenants at a rent solely representing its agricultural value, on a tenure that would give absolute security to the tenant and his heirs, so long as the rent was paid, together with full freedom of cultivation; but the tenant should be liable to displacement

FUTURE FOR DEMOCRACY

for bad farming, and if a part of his land was required for some public purpose, such as the making of a road or the construction of a school, it should be taken from him, without compensation other than a proportional reduction of rent. With these exceptions, he would become in effect the owner of his land, so long as he used it well; and the pride of ownership would be enlisted to reinforce his work. If he chose to give up his land, he should have no right to sell his tenant-right, but the County Committee should pay full compensation for any improvements he had made, charging for them in the rent fixed for the next tenant.

It would be inappropriate here to go into the details of this plan, which have been fully set out in Liberal literature. Enough to say that it would get rid progressively of landlordism, without throwing on the State the responsibility of directly organising the agricultural system; it would preserve the creative and energising power of individual enterprise, while combining with it public regulation exercised by and through the agricultural community; and it would open opportunities such as now do not exist to the rank and file workers of agriculture.

Such a system could not be brought into being without a great deal of State assistance, especially in the provision of capital; but this would only be a replacement of the capital already drained out of the industry. These proposals are put forward not as representing a final, worked-out, authoritative scheme; but as illus-

THE LAND

trating the kind of combination of private enterprise with public regulation and assistance which we have advocated over the whole range of productive enterprise.

Much of our land is incapable of being turned to agricultural uses. But a good deal of this otherwise waste area can be profitably used for forestry; and the progressive diminution of the world's timber supplies, which is due to the immensely enlarged utilisation of timber for industrial purposes, makes it very important that our potential forest resources should be developed as fully and as rapidly as possible, in view of the coming scarcity.

This is a kind of work that cannot be left to private enterprise, because a newly planted forest takes a generation before it begins to yield any adequate return upon the capital invested in it. The State alone can wait so long, or look so far ahead. This was recognised by the pre-war Liberal Government, when it established the Forestry Commission, and so began scientific forestry in this country. Considerable progress has already been made, but we are still a long way from the day when all the land suitable for forestry will have been utilised for that purpose. This is a kind of work which can be slowed down when labour and capital are fully employed, and, with due foresight, quickened when both are short of employment. It enriches the nation not only by creating new timber supplies on land otherwise unfruitful, but by preventing denudation of the soil, and retaining moisture.

FUTURE FOR DEMOCRACY

4

It remains to say something, briefly, about the land as the surface through which alone access can be obtained to the country's mineral wealth.

It is intolerable that all the wealth that lies beneath the surface of the soil should be assumed to be the property of the owners of the surface, and that they should be allowed to charge a "royalty" upon every ton extracted. The very name "Royalty" indeed, suggests what is the truth, that at one time mineral rights were regarded as a prerogative of the Crown. They must be reclaimed for the community. Where the existence of minerals beneath the surface is already known, even if they have not been exploited, and where these rights have influenced the price paid for the land because the State recognised them as belonging to the landowner, compensation will have to be paid: in the case of coal, it is already agreed that it shall be paid. But where the existence of minerals is unknown, or has not affected the price of the land, the claim of the Crown, on behalf of the community, should be asserted without any talk of compensation: the only compensation payable would be the price of the land through which access must be obtained to the minerals; and this should apply equally to all minerals, including oil.

Having thus regained a power which ought never to have passed into private hands, the State should use it for the purpose of regulating the exploitation of the

THE LAND

minerals: appointing a permanent Commission which would decide whether it was desirable to open up new mines, and if so where; and what royalties should be paid by the exploiters—for it is obviously just that a royalty should be paid for the use of a wasting national asset; and the royalty should vary according to the natural riches of the mine-field, and be reduced to nothing when the mine was working under serious difficulties. The Commission would grant leases for the working of this mine-field or that; and it could incorporate in its leases conditions affecting the working of the mine, including the provision of reasonable amenities and good housing conditions for the workers. Here, again, private enterprise in the actual working of the mine, subject to effective public regulation, would afford yet another illustration of that combination of private initiative with public regulation which, as we have urged, should characterise the productive system of a free community.

This method of dealing, not only with the coal industry, but with all other “extractive” industries, has long been advocated. It is far preferable, in the public interest, to the vesting in the State of the complete conduct and control of an industry the conditions of which vary so infinitely from district to district, and even from mine to mine, that any centralised control must be cumbrous and ineffective.

In this chapter we have brought together a number

FUTURE FOR DEMOCRACY

of political problems which are not usually regarded as akin—the taxation of land-values, the work of regional planning, the organisation of agriculture, and the organisation of the mining industry. But they are all alike parts of the same broad problem: the duty of the State in relation to the utilisation of the land, upon which all the activities of the nation depend. And here, as in other fields, the same note appears. We do not advocate pure individualist Capitalism, or *laissez-faire*; neither do we advocate the doctrinaire proposals of Socialism. We should aim at retaining and even increasing the driving force of individual effort, but at bringing it under effective regulation by the State, in the interests of the community; and at thereby preventing the abuses to which, when uncontrolled, private enterprise is liable to lead, without ossifying it by the rigidity of Socialism.

CHAPTER X

NATIONAL DEVELOPMENT

1

THE duty of ensuring that the resources of the nation are wisely and fully developed must necessarily fall to the State, since only the State can take into review the various aspects of this problem, and their inter-relations. In fulfilling this duty, the State must in part guide and co-ordinate the activities of private enterprise, or of local authorities; but there are also many functions which it must itself directly undertake, and some of these involve the employment of labour and capital on a great scale.

In earlier chapters, and especially in the last, we have seen something of the range and variety of these functions. They are, in total, so great that they may bring about a breakdown of the machinery of democratic government, unless we ensure that this machinery is made more efficient; a subject which was discussed in Chapter IV. In one sense, indeed, most of the activities of the State may be described as aiming at the proper development of the resources of the nation, human and material. But we are here concerned

FUTURE FOR DEMOCRACY

mainly with the development of material resources, and in particular with the work which has to be undertaken by the State, acting either directly or through local or specially constituted authorities. And it will be well to begin by surveying, in outline, the functions which must be performed by the State if they are to be performed at all.

First, the State is responsible for the efficiency of the whole system of transport, and especially for the roads: a duty to which we have made only passing reference. The pre-war Liberal Government accepted the duty of reconstructing the whole road-system of the country on lines suitable for the motor age, and it created a revenue for this purpose by the special taxation of motors, and established, in the Road Board, a body to administer these funds, and to supervise the work of reconstruction. These funds have now been merged in the general income of the nation, but that does not alter or diminish the responsibility of the State in this regard.

The main roads have now been taken under direct State control; the local roads remain under local authorities, aided by State grants. A great deal has been done, especially since the war, in the reconstruction of the road system. But a great deal remains to be done, especially in easing the traffic through crowded cities. It is, for example, monstrous that two main roads should cross in the very centre of Oxford, with the result that heavy and noisy traffic not only destroys

NATIONAL DEVELOPMENT

the peace of that venerable city, but threatens to shake down its ancient and beautiful buildings. Again, there are still thousands of bridges which are unable to carry the burden of traffic that ought to use them. And the local roads in country districts need to be improved if a proper system for the collection and transport of agricultural produce is to be made possible. It is still far from true that the road-system has been made adequate for modern needs.

Secondly, we have as yet made no reference at all to the need of systematic and scientific treatment of our water resources. This has several aspects. The possibilities of cheap inland water transport for heavy goods, by canals or navigable rivers, have never been sufficiently explored. In this respect Britain lags far behind other countries. Since the war France, for example, has carried out a remarkable reconstruction of her canal system, while our canals have mostly fallen derelict, and even those that are still used are quite inadequate for modern methods of transport.

Again, the supply of abundant pure water for human needs is adequately dealt with, so far as the big towns are concerned, by municipal water schemes. But there is a good deal of wasteful overlapping and lack of co-ordination between these schemes; and the needs of the rural districts have been seriously neglected. In times of drought, villages are starved for water, even when the pipe-lines of municipal supplies pass through their lands.

FUTURE FOR DEMOCRACY

Yet again, we have given little attention to the utilisation of our water resources for the production of power. Our natural resources are far inferior to those of France, Germany and Italy; all the more reason why they should be scientifically developed.

There ought to be a national Water Commission which would survey these resources both for human and for industrial needs, co-ordinate the schemes of local authorities and private enterprise, and map out the places in which conservation lakes and reservoirs could be created not only for the supply of cities and country districts, but for the creation of power, and for the regularisation of the flow in navigable rivers and canals. Such a system existed in Germany—rich as are her natural water resources—even before the war.

Finally, the country's drainage system needs attention. The rivers, which are the main drainage channels, tend to be overstrained in seasons of heavy rainfall, partly because the area of slate-covered roofs and asphalted roads, impermeable to water, has been so greatly increased that the outflow when there is heavy rain helps to cause costly and destructive floods in riverside towns. A considerable part of our cultivable land, also, is more or less waterlogged; and local jealousies, the inadequate powers of local drainage authorities, and the difficulty of adjusting the charges among private owners, prevent effective action. Here is another sphere in which, if anything effective is to be done, it must be done by the State.

NATIONAL DEVELOPMENT

Again, as we saw in the last chapter, most of our towns need to be re-planned, reconstructed and cleared of their slums; even when the existing programme of slum-clearance has been completed, there will still be a great deal to be done (see Chapter XI). This is a work that can only be done gradually, but it is a necessary work, that could be pushed on when trade was slack. Moreover, as we shall see in the next chapter, the State must assume a large degree of responsibility for the housing of the people, and especially of those (whether in town or in country) whose incomes do not at present allow them to have houses in which their children can be brought up in healthful conditions. Although we have built three million houses since the war, this need has not yet been met.

Yet again, as we have seen, a large re-construction of our agricultural system is needed; it must aim not only at the maximum supply of foodstuffs, but at the maintenance on the land, in healthy conditions and with prospects of advancement, of the largest possible number of people. In the initial stages, at any rate, this will demand stimulus and help on a large scale from the State, especially for the creation of homesteads and the equipment of small farms.

Round our coasts, a great deal of work has to be done for the prevention of coast-erosion, and for the reclamation of reclaimable areas. Our ports and harbours need development and improvement; some of them are less efficient, and offer a more expensive

FUTURE FOR DEMOCRACY

service, than corresponding ports on the continent. Since the war, while we have been doing little, on the plea of economy, other countries have been doing much. Nor is it only the big ports that need attention; the little harbours used by the fishermen equally need to be made safe and efficient. All this is work which, if not directly undertaken by the State, needs State encouragement and help; and it all involves the employment of labour and capital.

Again, although there has been in recent years a very considerable development in the use of electric power, we are still far behind other and smaller countries in this regard, as also in the use of the telephone. The wholesale distribution of electricity has been brought under public control; the telephones have long been controlled by the State; and it is a public responsibility to see that these facilities are made, as nearly as possible, universally available, so that enterprise, whether private or public, shall have at its disposal every means of attaining the highest degree of efficiency.

The catalogue might be further extended. But enough has been said to show that the functions of the State, in securing the full utilisation of national resources and creating the conditions in which enterprise can fructify, are already very great, and demand extensions, which will involve the employment of both capital and labour on a large scale. It may safely be said that there will always be plenty of work of this kind waiting to be done. It may not always be profitable, in the sense of

NATIONAL DEVELOPMENT

yielding an immediate monetary return; but it should always be profitable in the sense of increasing the nation's health, efficiency, and capacity for creating wealth. Indeed, no work of this kind should ever be undertaken unless it promises to be profitable in this larger sense.

2

The kind of activities we have been describing in the last section are commonly described as Public Works. They have two features which differentiate them from ordinary industrial activities. In the first place, they do not compete with "private enterprise", because private enterprise cannot undertake them; this is true even of the provision of houses for those who cannot afford to pay an economic rent. In the second place, even under complete freedom of trade, they are not subject to foreign competition. They do not enter into the ordinary course of trade; they are not dependent upon the working of supply and demand; and for that reason, they can be undertaken at any time.

The best time to undertake them, or to press forward with them vigorously, is when trade is bad. For then a great deal of capital is unemployed, and can be borrowed at a lower rate of interest (especially on a State guarantee) than when trade is good. And in times of bad trade, a great deal of labour is also unemployed, and every man taken on for public works represents a saving in the expenditure upon unemploy-

FUTURE FOR DEMOCRACY

ment relief. Thus, even from the narrow point of view of finance, periods of bad trade are pre-eminently the times when Public Works should be pressed forward.

It is not the least recommendation of a policy of Public Works or National Development that it affords the best means of reducing the volume of unemployment. But that is not the sole, or even the main, reason for undertaking such a policy. The main reason is that it is needed as a means of improving the national equipment. The reduction of the volume of unemployment is an almost incidental result of a policy which is right and sound quite apart from unemployment.

One of the most unhappy features of the industrial age is that it has seen the development of what is known as the Trade Cycle—the regular alternation of “slumps” and “booms”. The explanation of this phenomenon seems to be that, when trade is booming, manufacturers are tempted to undertake large programmes of expansion, and of capital expenditure on factories and machinery. But soon they find that they are producing more than the current demand requires; prices slump down; the outlay on capital goods is suddenly reduced; many of those who have been engaged in producing them are thrown out of work; their diminished purchasing power leads to a decrease in the demand for consumable goods, and in the prices paid for them; and the vicious spiral goes on until stocks are exhausted, and the bottom of the slump is reached. Then demand slowly recovers, first for consumable goods, and later

NATIONAL DEVELOPMENT

for further expansion and therefore for capital goods.

There is no need greater in our industrial society than that these alternations of slumps and booms should be evened out, so that the volume of industrial production should go on steadily. This can be helped by a wise control of credit: if the Banks charge heavily for their loans, or restrict them, when a boom is visibly taking place, excessive capital expansion will be to some extent checked. But more than this is needed; and an intelligent policy of national development, directed by the State, can do a great deal to supplement banking policy in evening out the Trade Cycle. For the slump always begins with capital goods, whose workers are the first to lose their employment and their purchasing power. But it is mainly capital goods that are needed for public works; therefore, when the expansion of industry slows down, a programme of public works will keep the workers who make these goods in employment, and preserve their power to purchase consumable goods. A wisely directed policy of National Development is therefore the best way of keeping industry steadily at work, and avoiding the suffering which accompanies the slumps that follow the booms. It is an important element in a soundly conceived economic policy.

At the World Economic Conference of 1933, which was held at the bottom of the worst slump that industry has ever known, the United States and other countries urged that every country ought in these circumstances to undertake a courageous policy of public works. The

FUTURE FOR DEMOCRACY

British Government replied that it was opposed to such a policy, because it did not believe in relief works for the unemployed. In saying this, it showed itself to be woefully lacking in insight, and in understanding of the vital facts of modern industry. To conceive of National Development merely as a means of providing relief works for the unemployed is inconceivably short-sighted.

A policy of this kind has long been advocated by the Liberal Party and by others; and the first step towards putting it into operation was taken when the pre-war Liberal Government established a Development Commission. Since the war this policy has been eagerly pressed. In the controversy which arose from this advocacy, much was made of calculations showing how many (or how few) men would be employed for every million pounds laid out. These calculations were usually confined to the number of men who would actually be at work on the roads; they left out of consideration the men who would make the machines, or quarry the stones, used in road-making; they left out also the number of workers who would be employed in factories and shops making and selling things that all these workers would buy with their wages. But the main point that was left out of consideration was the value and utility of the work to be done. Would it enrich the nation and strengthen its equipment? That is the one vital question: substantially a question of the same order as every Board of Directors puts to itself before erecting a new factory or modernising an old one.

NATIONAL DEVELOPMENT

If the work would permanently enrich the nation, it is worth doing for its own sake; but it is best that it should be done at a time when it will help to relieve unemployment, and when, also, capital can be got cheaply, and every man employed will reduce the burden of unemployment pay.

It was also argued, and the point is still often made, that a policy of this kind, involving the raising of large amounts of capital, would seriously increase the National Debt, and weaken the country's credit. This sort of argument is based upon a failure to distinguish between "dead-weight" debt, which represents past expenditure from which no return will ever be forthcoming, and "investment" debt, which represents the creation of permanently valuable properties that give a steady and often an increasing return. All capital expended intelligently on National Development will give a return, either a direct monetary return, or an indirect return in increased health, happiness and power of work, or both; but capital that has been blown into the air in wars, or spent on the instruments of destruction, gives no return at all, but is a weight round the neck of the nation, until it can be paid off out of the nation's savings. A man may borrow money and throw it away in gambling; or he may borrow money to double the size of his shop and his trade. To confuse these two kinds of borrowing would indeed be foolish; and the criticism of a policy of National Development which treats it only as an

FUTURE FOR DEMOCRACY

increase of debt, without recognising that it is (if rightly directed) a highly profitable investment, is equally foolish.

3

But National Development cannot be advantageously undertaken unless it is thoughtfully planned beforehand. If it is undertaken in a hurry, without due preparation, merely because the unemployment figures are going up, it will bear the aspect of relief works, and it will not be well done.

If this vitally important function of the State is to be well and truly performed, schemes of useful work, to be undertaken when circumstances are favourable (that is to say, when trade is bad) must be fully worked out in advance, with detailed estimates of the probable cost. Whose business should it be to see to this? There is in existence no organ of State capable of undertaking the task. The Cabinet (which ought to be taking a long view of the nation's needs) is far too busy with the day-to-day demands upon its time, and its members are engrossed in the work of their departments. Before the war a Development Commission was set up for this purpose; but it has been ineffective, probably because the range to be covered was too wide and vague. It has been suggested, by the authors of *The Next Five Years*, that a standing committee of the Cabinet should be appointed for the purpose; but this suggestion seems to be open to both criticisms.

Would it not be best that all the departments specially

NATIONAL DEVELOPMENT

concerned, and all the Standing Commissions which have been or may be set up to deal with various economic problems, should be asked to work out in detail plans for future development, with detailed estimates of their cost, which could be put into operation if larger funds than usual were placed at their disposal?

Thus the Post Office could work out big plans (with estimates) for telephone and wireless development, the Board of Education for the construction or reconstruction of schools, the Ministry of Transport for the development of the road system, the Board of Agriculture for the creation of small holdings, the Office of Works for the erection of public buildings, the Forestry Commission for the speeding up of afforestation, the Water Commission (which we have suggested in this chapter) for canal reconstruction, works of water-conservation, and possibly schemes of drainage, the Region-planning Commission (which we suggested in the last chapter) for works of urban reconstruction, and the creation of satellite towns, the Housing Commission (which we shall suggest in the next chapter) for the further clearance of slums and the erection of low-rented dwellings; and so on, throughout the range of State activities related to this kind of work. Even the Colonial Office might be instructed to work out plans for the opening up of the vast territories under its care.

Then all the plans would be submitted to the sub-Cabinets concerned with economic and social affairs; and it would be their business to fix priorities of

FUTURE FOR DEMOCRACY

importance. Finally, the Cabinet would have before it fully digested proposals, ready to be put into operation as soon as the signs of slump appeared. Thus the resources of the nation (the greatest of which is its manhood) would be kept more steadily at work, and saved from the deterioration of unemployment; and the efficiency and equipment of the nation would be steadily improved.

But something more than this is needed. Our people are tending too much to fall into industrial castes. In an age when industrial processes change almost from day to day, they must acquire a greater adaptability, a greater capacity to turn their hands to new forms of work. To bring this about is partly the task of the educational system; but its work can be supplemented by schemes of training such as have already been set on foot during periods of unemployment.

In sum, the work of National Development ought to be regarded as one of the primary economic functions of the State, to be constantly held in view, and to be continuously studied by all the public departments concerned. The adoption of this view would enforce upon all these departments a forward-looking habit of mind, and save them from living from hand to mouth, as they are too apt to do. Above all, the adoption of this policy would be a very great contribution to what we have defined as the main function of government in a free society—the creation of the positive conditions in which free men can make the most of their capacities.

CHAPTER XI

THE SOCIAL SERVICES

1

THE most remarkable expansion of the functions of the State which has taken place during the last generation has been the growth of what are called the Social Services, the object of which is to establish a national minimum standard of living, below which no one shall be allowed to fall. By doing something to drain the morass of poverty, and to lay firm foundations upon which the structure of a genuinely free society can rise, the Social Services are essential to the realisation of the system of liberty. It is not surprising that they mostly owe their initiation to the Liberal Party, and that their recent progress has been in the main a development of schemes which it introduced.

We have reason to be proud of our Social Services, to whose range there is no parallel in other countries; though there is still room and need for improvements, as we shall see in the course of this chapter. The total expenditure on these services now amounts to more than £480 millions per annum. Nearly three-quarters of this total comes out of public funds, national or local;

FUTURE FOR DEMOCRACY

the rest comes from contributions and fees. The contribution of the State (£225 millions) is substantially greater than the whole expenditure of the State in the year before the war.

It is often said that this represents a real redistribution of wealth as between the rich and the poor, and to some extent this is true. But the statement needs qualification. It is true that there has been a great increase in the taxation of the rich. But it is also true that there has been a great increase in the taxation of the poor, in the form of indirect taxation, which falls with disproportionate weight upon people with small incomes. The increased taxation of the poor which has thus been brought about is approximately equal to the increased cost of the Social Services. If we assume that the mass of the people make no contribution to the burden of the national debt and of the defence services, or to the other necessary costs of government, it can be argued that the cost of the Social Services is in the main met by those who chiefly benefit from them.

Let us first consider the existing range and magnitude of these Social Services; and then examine some of the more obvious instances in which they need to be revised and improved. We shall for the present omit Education, which is perhaps the greatest of all; it has already received separate treatment. Some of these services are provided by local authorities, under the terms of laws laid down by the State, and under the supervision of one of the departments of State. Others are provided

THE SOCIAL SERVICES

by a co-operative system of Social Insurance, the invention and development of which has been among the greatest achievements of modern Liberalism. Yet others are provided by employers, upon whom heavy legal obligations are imposed.

In every part of the country, urban and rural, more or less efficient systems of sanitation are provided by local authorities. In all the bigger towns, and in a less satisfactory way in some rural districts, abundant supplies of pure water are provided by the local authorities, and paid for by rates levied upon the users. But both in regard to sanitary conveniences and in regard to the supply of water, there are still serious difficulties to be overcome, especially among the dwellings of the very poor. Most towns provide baths and wash-houses for the use of the people at a modest charge, but there is room for a great expansion of these facilities.

In every district of the country there are Medical Officers of Health, working under local Health Committees, and supervised by the Ministry of Health; much of the stimulus to the improvement of health conditions has been due to the work of these officers. Everywhere there are hospitals, some private, supported by voluntary contributions, others public, supported out of the rates; and the latter, formerly subject to the stigma of being designed for the use of "paupers", are now open to general use. Every factory and workshop is subject to conditions of growing strictness for

FUTURE FOR DEMOCRACY

ensuring the health and safety of the workers; these conditions are enforced by law under the supervision of a corps of factory inspectors. Workers are entitled by law to compensation for all accidents during their work. The whole child-population, at school, is medically inspected and treated; if the children are hungry, they are fed; and recently they have been supplied with milk at less than cost price. Under the National Health Insurance Scheme nineteen million people, including practically the whole of the working population, and many of the "black-coated" workers, are entitled to free medical attendance when they are ill, to maintenance allowances during illness, and to maternity and other benefits. The widows, and the orphans under working age, of these nineteen million people are entitled to pensions. All old people among these nineteen millions can draw pensions on reaching the age of 65, and old people who are not insured can draw modest pensions at the age of 70, if they have insufficient means to support them. Almost all wage-earners, when they fall out of work, are entitled to insurance benefits, or (when they fall out of insurance) can draw unemployment relief. Moreover, through a network of Labour Exchanges, the State helps them to find jobs; while they are also given opportunities of obtaining training for new occupations if the industries for which they have worked have no room for them. And behind all this provision stands the Poor Law, as it used to be called, or the Public Assistance system, as

THE SOCIAL SERVICES

it is now called, which provides relief for any who are in acute distress.

This is a very remarkable range of services, such as no other country affords. They have all come into existence during the last hundred years; a hundred years ago no provision existed save the harshly administered Poor Law system which Dickens satirised in *Oliver Twist*. The most important of these services, and in particular the beneficent systems of Social Insurance, owed their existence to the pre-war Liberal Government. The system as a whole has come into being piecemeal; it could not be otherwise, because industry had to adjust itself gradually to these growing demands. It needs to be co-ordinated, and in many ways expanded.

But while we recognise and strive to amend the deficiencies of the system, we must not fail to recognise also the immense boons that have already resulted from it. How could we have stood the strain of the troubled post-war years without the alleviation which the Social Services afforded us? Must we not recognise that the freedom of this country from the destructive upheavals that have retarded the progress of other countries has been largely due to their effect? The system has done much to provide the foundations upon which the structure of a genuinely free society can be raised. But there is still much to be done ere we can claim that the foundations are secure.

FUTURE FOR DEMOCRACY

2

All our plans for the future must be profoundly affected by the movement of population. Owing to the health services, the death-rate has been going down steadily: the number of deaths per 1,000 of the population has been halved since 1871; the average length of life has been remarkably increased; and the proportion of old people over 65 has consequently risen greatly. But, on the other hand, the birth-rate has been declining still more rapidly, especially in recent years: it is less than half of what it was forty years ago. Our population, after increasing rapidly for a century and a half, will soon be stationary; and then, after a time, it will diminish. The same tendencies are at work in all the European countries except Russia, whose population is increasing by leaps and bounds, in spite of a monstrously high death-rate.

Many people are unperturbed by the prospect of a declining population: they think that in these circumstances our social problems will be more easily solved. They do not reflect that old people over 65, who are no longer fit for heavy work, will increasingly form a larger proportion of the population, while children under 15, who are growing up to take their part in the country's work, will form a smaller and smaller proportion. In the twenty years before the war, more children were born than in any equal period before or since. These children, now between 25 and 45 years old, form to-day the bulk of the working population. As they reach the

THE SOCIAL SERVICES

age of 65 and pass into the ranks of the old, these ranks will be swollen; and the main burden of work will fall upon the far smaller number of children who were born during and since the war. In 1931 people over 65 formed about 7 per cent. of the total population —a larger percentage than ever before. By 1951 it is estimated that, if the present movement of population continues, people over 65 will form 11 per cent., and by 1976, 17½ per cent., of the total population. This will present the next generation or its successor with a problem of a wholly new kind: the problem of maintaining a growing population of old people, besides carrying on all the normal activities of the community, by the labour of a shrunken and dwindling population of working age.

It is our duty to anticipate and prepare for this strange new situation. Since the birth-rate is declining, what can we do to ensure that the largest possible number of the children who *are* born are enabled to survive in health and strength? And what can we do to make adequate provision for the old, whose maintenance already imposes a heavier burden upon the people of working age than ever before, a burden that will increase as time goes on?

There is a terrible wastage of young life through the death of infants under one year of age. Infant mortality has indeed been markedly diminishing; but even now, on the average of England and Wales, 59 infants out of every 1,000 die before reaching the end of their first

FUTURE FOR DEMOCRACY

year. It is noteworthy that the rate of infant mortality is highest in the industrial, and especially in the depressed, areas: it is 98 per 1,000 in Barrow, 84 in Newcastle-on-Tyne, 80 in Liverpool, 75 in Cardiff, 67 in London and Birmingham. Several European countries have a lower infant mortality than this country. Here, clearly, is a field in which much can be done by wise health administration. For these children mostly die, not because they are weak and unfit to survive, but because they do not receive proper care at and after birth.

Even more serious in its consequences (though the figures are not so impressive) is the mortality of mothers in or because of child-birth; for maternal mortality is actually getting worse. The death of a mother not only destroys the hope of future children; it deprives young families of the care which they need in the most critical years of their lives. And beyond a doubt, the high figures of maternal mortality as well as of infant mortality are due to the lack of proper care before and after child-birth, and of proper attention at the time of birth. There is no contrast between the rich and the poor greater than the difference of the treatment they are able to give to expectant and nursing mothers.

These are remediable evils; and it is of vital importance for the future of our people that they should be remedied. They can be remedied partly by improving the maternity benefits of the Health Insurance scheme; partly by the provision of qualified midwives, for which

THE SOCIAL SERVICES

a new service has just been instituted; partly by an extension of the Infant Welfare work which is now being carried on; and partly by a sound nutrition policy, which will make good food of the right types available for all.

It is not less important that growing children should be enabled to grow up in health, free from the permanently weakening ailments which are due to under-nourishment. Ultimately, as we have seen (Chapter VII), the main remedy for this must be found in increasing the incomes of all workers. But that will take time.

In the meantime it has become evident that the State must assume a more direct responsibility than it has yet done for seeing that the nutrition of the people, and especially of growing children, is adequate. There may be argument as to the best ways of attaining this end. But it is clear that in these circumstances the taxation of food is criminal; and that the policy of deliberately raising food-prices, and especially the price of the most valuable of all foods, milk, cannot be tolerated. The farmer must get his profit not from reduced consumption at higher prices, but from increased consumption at lower prices, and from a reduction of the cost of distribution.

On the other side, we have to ask ourselves how provision is to be made for the greatly increased population of men and women beyond working age with whom we shall soon have to deal. The existing

FUTURE FOR DEMOCRACY

pension schemes—contributory at 65, and non-contributory at 70—have been an untold boon to many thousands of old folk: they have made it possible for many of them to live with their children without being unduly burdensome. But when the proportion of old people has greatly increased, and the proportion of younger people greatly diminished, this will no longer be an adequate solution; indeed it is less than adequate now. We may hope that, in time, better wages, profit-sharing, and facilities for small investments may make it possible for people to accumulate means of their own during the years of their strength, on which to live when old age comes. But we cannot yet trust to this, since it depends upon our ability to increase the total income of the nation.

It seems necessary, therefore, that a general system of superannuation allowances for all workers in industry, distinct from the Old Age Pension scheme, should be worked out, under which the State would supplement contributions from employers and workers. Now is the time to introduce such a plan: now, when the population of working age, who will soon become old, is almost at its maximum. Such a scheme is on all grounds desirable; it already exists in the State and municipal services, and in many progressive private concerns; it ought to be an essential element in a sound industrial system; and its development might well be the next big forward advance of our Social Services.

THE SOCIAL SERVICES

Meanwhile it is important that the Old Age Pensions should not be administered in such a way as to penalise savings and discourage thrift. And there is one class that deserves special consideration. Spinsters are very numerous in a society in which women outnumber men by more than two million; and no lot is harder than that of the ageing spinster without means, who has had to maintain herself on the low wages that are commonly paid to women, or has given the best years of her life to the unpaid service of her elders, and who often finds herself thrown on the scrap-heap without resources. Spinsters will form a large element in the great body of old people who will have to be maintained in the future; it is very difficult for them to save much; and they have no such claims upon the younger generation as their fathers and mothers. The provision of a scheme of pensions for spinsters demands special sympathy.

3

The National Health Insurance scheme, which has now been in existence for a quarter of a century, has worked well, and yielded immense benefits to the health of the people. But there are several ways in which these advantages could be very substantially increased. There ought to be allowances for the contributor's dependents during his period of disablement: it is anomalous that a man should receive allowances for his wife and children when he is kept

FUTURE FOR DEMOCRACY

from working because there is no job for him, but not when he is disabled by illness. Again, the medical benefit should also cover the contributor's dependents; this would help to ensure the healthy upbringing of children, especially during the early years before they come under school medical inspection.

It is desirable also that the scope of the scheme should be extended, so as to include in particular all the "black-coated" workers, the small shop-keepers and other classes. In the long run the scheme will no doubt be made universally compulsory. It would then cease to mark a class distinction. Well-to-do people might refuse to avail themselves of its benefits. In that case, they would be contributing to strengthen the provision for the health of the nation, as it is right that they should. But there are many people with modest incomes who cannot afford to pay proper attention to the health of themselves and their families; they might, for silly class reasons, refuse to come into the scheme on a voluntary basis; but if they were compelled to contribute, and no class distinction were involved, they would make use of the benefits, to their own great advantage.

Finally, there is a good deal to be said for bringing all accidents under the Health Insurance scheme. Accidents at work are now dealt with under the Workmen's Compensation Act, which lays the obligation of compensation upon the employer; he meets it by paying premiums to an insurance company. This

THE SOCIAL SERVICES

method has the advantage that it stimulates the employer to take the utmost precautions against accidents, because a firm with a good record can get its premium reduced. But the method has some drawbacks; in particular, it opens the door to a good deal of litigation, especially in marginal cases in which it is difficult to be sure whether a particular accident comes under the Act or not. If all accidents were covered by the Health Insurance scheme, doubtful cases could be dealt with more cheaply and expeditiously by special arbitral tribunals; and the whole range of disabling ailments, which add insecurity to the worker's life would be dealt with in a systematic way.

4

Since the war the State has for the first time assumed some responsibility for the housing of the people. The reason for this was that the cessation of building during the war had caused a grave shortage of houses, and the improved conditions of life which the war brought to many poor people created a demand for a better standard of housing than had previously been known. We have realised that, with the exception of good food, nothing is more important for the well-being of the people, moral as well as physical, than good housing. There is no doubt that the standard of housing since the war has been far higher than it was in the past; and we may hope never to see again the construction of the

FUTURE FOR DEMOCRACY

endless rows of dull and featureless “brick boxes with slate lids” in which the majority of our people have been condemned to dwell. By an immense effort, no less than three million new small houses have been erected since the war, half of them in the ordinary course of business, by private enterprise; while of the remainder two-thirds have been built by municipalities with the aid of government subsidies—often in pleasantly laid out estates, in which each house has its bit of garden—and one-third by subsidised private enterprise.

Unhappily this immense effort has been carried through for the most part without plan, in an aimless and haphazard fashion which has led to a serious disfigurement of the countryside; it has largely followed the new roads, with the result that the towns have thrown out long and ugly tentacles into the country, which are ruining rural peace and beauty and spoiling the country for agricultural uses, without ensuring the advantages of civic life to the dwellers in the new houses. This has become so serious that an attempt has been made by legislation to check what is called “Ribbon-development.” It has not been successful; nor is it likely to succeed until scientific planning is undertaken on some such lines as were suggested in a previous chapter (Chapter IX).

There are signs that the building boom is nearing its close. But this does not mean that the need has been fully met. As there are supposed to be only 11,000,000 families in the country, it might appear that the addition

THE SOCIAL SERVICES

of 3,000,000 houses to the 8,000,000 or more which already existed ought to be sufficient. But while the birth-rate has been declining rapidly, the number of small families has been increasing: married couples with no children, or with one or two, prefer to spend their incomes on an easily run house and a cheap car rather than on bringing up a family. It is these people who can afford to occupy, and largely do occupy, the innumerable red-brick villas which have been spread round all our towns.

In spite of all the building, overcrowding still continues in the poorer parts of our towns. In 1936 a survey of England and Wales was carried out by all the local authorities, on the instructions of the central Government. The standard of "overcrowding" adopted was not a very exacting one; it did not regard as "overcrowded" a house in which the living rooms were used for sleeping, provided that not more than two adults, or four children under 10, slept in a single room. Yet even so, the enquiry showed that 340,000 houses in England and Wales were overcrowded on this definition; and if the use of living-rooms for sleeping had been excluded, the number would have been raised to 840,000. To get rid of overcrowding, therefore, would involve the construction of a very large number of additional houses.

But besides this, there are multitudes of the existing houses which ought to be demolished as unfit for human habitation. It is these houses which mainly constitute the "slums". When in 1933 the Government launched

FUTURE FOR DEMOCRACY

a scheme for slum clearance, it estimated that there were 280,000 of these houses which ought to be destroyed, and replaced by a larger number of new dwellings. A "five-years' plan" was laid down for this work; but it is still far from being completed. The Government's estimate was, however, far too low. Sir Ernest Simon has pointed out that, according to the Medical Officer of Health for Manchester, there were 30,000 houses in that city which were unfit for habitation, and 80,000 more which on any decent standard ought to be demolished. If we assume that the Manchester figures are representative, this would mean that, for the country as a whole, we should have to demolish and replace about 1,000,000 houses on the lower standard, and between 2,000,000 and 3,000,000 on the higher standard.

What this means is that, after building the 3,000,000 new houses to accommodate the numerous small families who can afford to live in them, we have now to face the task of dealing with the vast number of bad houses which we inherit from an age that never realised the importance of this problem. This involves a large reconstruction of our cities and towns, which cannot be well carried out except under well thought-out plans.

Moreover, this aspect of the problem cannot be solved merely by the haphazard erection of more "building-estates" outside of the towns. The people who inhabit these unfit dwellings are for the most part the poorest element in our population. They cannot afford to live in suburban houses, however small, which

THE SOCIAL SERVICES

are far from their work: if they try to do so, for the sake of their children, they find that higher rents and the cost of daily travel leave them with too little to pay for good food; and experience shows that health is better served by adequate food even in a slum than by inadequate food even in the country.

There are only two ways in which the workers employed in factories in congested cities can be enabled to live healthily without having to waste their leisure and their money in travelling to and from work. One is that big blocks of flats, with gardens and baths and other conveniences, should replace the slum areas in the towns. This method has been adopted on a large scale by many local authorities. But it is a very unsatisfactory solution. It is no more than a second-best, adopted in order to make it possible for the people to live near their work. A far better way is that both factories and their workers should migrate into new "satellite towns" in healthy surroundings. Both methods must be used; but the second ought to be stimulated and encouraged as much as possible. Neither method can be successfully carried out on the ordinary lines of commercial enterprise. They must be planned, directed and controlled by public authorities. With all our building activity since the war, we have as yet failed to meet this need, which is the greatest need of all.

In view of the greatness of this need, it is desirable that a standing Commission on Housing should be

FUTURE FOR DEMOCRACY

established, in connexion with the Ministry of Health. It should not override the local authorities, but should stimulate and guide them. One of its main tasks would be to plan suitable localities for "satellite towns", and to assist their development.

The time will come, and it should be our object to hasten its coming, when all workers will be paid enough to enable them to live at their own charge in healthy houses, and also to provide sound nutriment for their children. But this will take time. In the meanwhile, the task of providing good housing conditions for the poorest elements in the community must be recognised as one of the most essential of the Social Services. And even when our national wealth has been greatly increased and is justly distributed, it must still continue to be an essential function of the State to prevent the haphazard development from which we are now suffering, and to see that our towns are well planned, and that their growth is not allowed to ruin our countryside.

5

Of all the Social Services that which has been most useful, and which has at the same time led to the keenest and bitterest controversy, is the provision for the relief of unemployment.

Unemployment caused by changes of process or of fashion, or by changes of weather (as when bad weather puts builders out of work), or by the movements of the

THE SOCIAL SERVICES

trade cycle, seems to be an inevitable incident of industrial society. This being so, it is strange that no provision against it, beyond the humiliating aid of the Poor Law and the scanty aid which the Trade Unions could afford, had ever been made or attempted until the pre-war Liberal Government established the system of Unemployment Insurance—to begin with in a few selected trades—five-and-twenty years ago. This scheme was designed, not to provide its beneficiaries with an adequate livelihood, but to help them in tiding over spells of idleness between jobs. It was assumed, and before the war it could safely be assumed, that the great majority of men out of work would ere long be reabsorbed into their own trades. For we then had no experience of the prolonged and hopeless unemployment which has been the lot of the workers in certain trades since the war.

An insurance scheme can only be financially sound if the benefits offered are covered by the premiums paid. When the unemployment insurance scheme was extended to the whole range of industry in 1921, there were many thousands of workers who were credited with very few premiums, or none, and who were therefore not strictly insured. They were included in the scheme, receiving what was called “uncovenanted” or “transitional” benefit, because it was assumed that unemployment would soon return to normal proportions. It never did return to normal proportions, remaining, year after year, at the cruel figure of

FUTURE FOR DEMOCRACY

1,000,000 or more; and it became clear that there was a large mass of unemployment which could not be brought into accord with the ideas upon which the insurance scheme had been drawn up. The insurance fund was made insolvent by the burden thrown upon it; the charges could only be met by borrowing on a large scale; and this was one of the facts which led the world to believe, in 1931, that Britain was in an unsound financial position.

It ought to have been recognised, long before 1931, that the cruel mass of unemployment was of two kinds—in-and-out unemployment, of a normal kind, which could be dealt with by insurance methods; and the new element of long-term unemployment, which was due to the dislocations of the post-war period, and the burden of which ought not to be thrown upon the insurance fund, but ought to be met out of national funds. But only the financial crisis of 1931 forced the Government to recognise that the relief of the uninsured unemployed ought to be directly assumed by the State. Even so, there was a delay of three years before the outlines of the new plan were in 1934 defined by statute, and of two years more before these outlines were filled in by detailed regulations.

We now have, therefore, a two-fold scheme. Those who are more or less steadily in work, and who are credited with a sufficient number of premiums, receive as by right, during spells of unemployment, the regular benefits and family allowances for which they are

THE SOCIAL SERVICES

insured; and it is assumed that they will in due course be reabsorbed by the industry to which they belong. On the other hand, those who are not credited with a sufficient number of premiums, or who have exhausted their right to insurance benefits, receive "unemployment relief" at the cost of the State. In their case payment is not as of right, and there are enquiries as to the means of the recipient and his family before the payment is made. In their case, also, it is not assumed that they must wait until their own trade is ready to reabsorb them; they must take any kind of work for which they are fit; and, so far as possible, they are afforded the means of training themselves to take up other occupations.

In its main lines this system is sound enough. It draws a distinction between those who are regular employees in a trade, and only need help to tide over short spells of unemployment; and, on the other hand, the floating mass of unemployed workers who are no longer needed by the industries for which they have worked, and who ought to be helped to fit themselves to occupy new niches.

Since the burden of maintaining the uninsured has been removed, the Unemployment Insurance fund has rapidly returned to solvency; and it has already been found possible to increase the benefits provided, and to reduce the premiums from the very high level to which they were raised when the fund was faced with insolvency.

The problem of the relief of uninsured unemployment

FUTURE FOR DEMOCRACY

is far more difficult. But certain defects of the existing method of administration stand out very clearly. In the first place, the fortunes of this great body of workers who are suffering through no fault of their own are now under the control of a Commission which has no direct responsibility to Parliament, although it is spending large sums of public money, and wields a formidable authority over a large body of citizens. This is a strange arrangement in a democratic country; and it must be altered.

In the second place, the rules which govern the distribution of relief are too rigid. It must not be forgotten that the allowances made under the scheme are less than is necessary to provide adequate sustenance. In the light of this fact, the way in which the Means Test is applied is intolerably harsh, and has very bad social effects.

There must be a Means Test where public money is being distributed to people who have (unlike the insured) made no contribution to the fund from which they draw. The principle, often asserted by Socialists and accepted by Liberals, "from each according to his power, to each according to his need", implies a Means Test at both ends. We have a Means Test among the well-to-do to discover how much they should pay, in the inquisition carried out by the Income Tax officials. It is but just that there should be a Means Test at the other end, to ensure that people with means of their own do not draw unnecessarily upon the public purse. But

THE SOCIAL SERVICES

the inclusion, for the purposes of this enquiry, of the incomes of all the members of a family, including young men and women preparing for their own start in life, is intolerably unjust. No doubt family affection will ensure that, in most cases, sons and daughters will help their unemployed parents, and fathers their unemployed children. The scantiness of the allowances which the State makes, and which are insufficient for healthy nutrition, renders it very desirable that they should be supplemented in this way. But it is not to be endured that the State should define how much the other members of the family must contribute, and should reduce its scanty allowances in proportion. The Family Means Test must disappear.

In the third place, it is of the greatest importance for the future that the opportunities of training afforded to the unemployed, and especially to the younger among them, should be greatly extended, and that they should be required to take advantage of these opportunities as a condition of drawing their allowances. In this mechanical age, a general training can do much to enable a man to turn his hand to new occupations, and can equip him with alternative means of earning, or with the means of supplementing his income. In this way something can be done to help us to escape from the rigid system of occupational castes into which we seem to be drifting. Every man should, if possible, have a second string to his bow, as the dockers of Antwerp turn, during spells of idleness, to the cultiva-

FUTURE FOR DEMOCRACY

tion of their allotments. Every man should, if possible, be able to adapt himself intelligently to changing conditions of work, in this period of rapid industrial change. If the terrible evil of unemployment helps in any degree to make this possible, that will be a silver lining to the cloud.

The misery of mass unemployment is concentrated especially in certain areas, where the decaying industries have had their homes; and these areas must be specially dealt with in a far more vigorous and imaginative way than has yet been used. These industries have been in the past the main pillars of the nation's prosperity. They were the greatest of the export trades; and their decay, though not wholly due, is certainly largely due to the deliberate policy of Government, which, having set itself to restrict imports, has thereby necessarily also restricted exports, and the shipping trade that carries both. This has gravely aggravated the economic decay of these areas; so that whereas they were hives of industry not many years ago, they have now become the abodes of misery and idleness; a large part, and in many cases the greater part, of the population are compelled to exist upon the pittance of the "dole", and are undergoing progressive physical and moral deterioration. The local authorities can do almost nothing, because they cannot raise the needful funds from an almost destitute body of rate-payers; and the burden of rates is already so heavy, and the atmosphere of hopeless depression so dis-

THE SOCIAL SERVICES

couraging, that new industries are deterred from settling in these districts.

Here is glaring proof that it is not enough to distribute unemployment relief, but that bold and imaginative measures to deal with the causes of unemployment are needed. Even the restoration of the flow of international trade, though it would do much, would not suffice. Great and courageous measures of reconstruction are needed to give back hope and heart to the patient sufferers in these regions, and to restore among them the habit of work and the quality of energy. It is the most precious of the nation's assets, its manhood, that is here being wasted. And if the bold measures of reconstruction which are needed in these areas should fail to produce immediate financial profit, that is as nothing in comparison with the saving of great bodies of our fellow-citizens from degradation and despair.

We have described the Social Services as existing to drain the morass of poverty, to give hope, health and energy to the masses of our people, and to lay firm foundations upon which can be raised the structure of a free and self-respecting society. If we can do nothing effectual to raise these depressed areas out of the misery and despair into which they have fallen, of what worth are our hopes and plans ?

CHAPTER XII

WAYS AND MEANS

1

IN the foregoing chapters we have surveyed a great many lines of advance, all converging towards a single supreme aim, the creation of a genuinely free and democratic society, in which nobody shall be over-rich, and nobody shall be too poor to live the life of a free man; in which the ownership of property, that necessary safeguard of liberty, will not be limited to a few, or monopolised by the State, but will be within the reach of all; in which the physical conditions of healthy and decent living will be universal; in which every citizen will be sufficiently educated to have discovered his own powers and been given the means of becoming master of them; in which industry will be organised as the common interest of all who are engaged in it, and the State will see that the power of those who direct it is not abused; in which it will be the duty of the State to ensure that the material resources of the nation, and especially its land, are intelligently utilised, and there will be no danger that power over these resources will be unfairly used by private persons to the detriment

WAYS AND MEANS

of the community; in which, through freedom of trade with the rest of the world, everybody will have access to the abundance which the world offers to us, and the wealth of the nation available for distribution among its citizens will thereby be immensely increased; in which there will be the amplest opportunity for everybody to display all the energy and ability he possesses, for his own advantage and that of the community.

This is an ideal for the future of our society which a great majority of the people of this country would probably accept and endorse, if they grasped its significance, and thought it practicable. There are, indeed, some among those who are dissatisfied with things as they are who would repudiate certain aspects of this ideal. But even they would accept the greater part of it. If that is so, it ought to be possible to bring to realisation all those aspects of this ideal upon which there is general agreement among progressive-minded people. What stands in the way of common action towards this end? Mainly, no doubt, the stupidity, prejudice and obstinacy of men. But these get full play through a defective political system; and we have seen (Chapter IV) that this could without much difficulty be freed from its defects, if the desire to amend it existed. When that has been done, but scarcely before then, it will be possible for progressively-minded people to co-operate with mutual respect, and without any sacrifice of principle.

There is, however, another difficulty besides the

FUTURE FOR DEMOCRACY

political one. There is a financial difficulty; and it would be dishonest to set forth a picture of the great things we intend to do without first making sure that the attempt to do them would not come to wreck on the rocks of finance. We must therefore examine the practicability of these proposals from this point of view. Can we stand the increased burden which these reforms would throw upon the resources of the State?

The State is already taking for its own purposes nearly £1,000 millions per annum—about one-quarter of the total earnings of the nation; and if we add what the local authorities collect in rates, substantially more than one-fourth of the national income is taken for public purposes. Out of this sum, of course, come the incomes of all the employees of the State and the local authorities—judges, ministers and civil servants, soldiers, sailors, airmen, postmen, dockyard workers and all municipal employees; also the pensions and other payments of people who are wholly or partly dependent upon the State; also part of the incomes of those who have holdings in the National Debt. But these classes form far less than one-quarter of the population; and the rest of the population have to draw their incomes from the remaining three-quarters (or less) of the national income.

How is the huge revenue of the State spent? Nearly all of it comes back, of course, into the pockets of various sections of the people, in payment for services

WAYS AND MEANS

or in grants of aid. The largest block consists of the Social Services (including grants to local authorities), which cost over £300 millions per annum. This block cannot be reduced; we have been urging that it should be substantially increased.

The second great block consists of the service of the National Debt—£224 millions, or more than the total expenditure of the State before the war. There are only two ways of reducing this outlay, without impairing the nation's credit. One is to pay off the debt gradually by means of sinking funds. This is a very slow process, and it has now been brought to an end. We are, in fact, adding to the "dead-weight" debt by borrowing money for rearmament. The other way is to persuade the holders of debt to accept a lower rate of interest. This has already been done on a large scale, and it is not likely that there will be much opportunity of carrying the process further in the near future.

What makes the National Debt burdensome is that it is almost all "dead weight" debt, on which we get no return, since it represents the cost of munitions that were blown into the air during the war. A very small fraction of it consists of "investment" or "reproductive" debt, on which we do get a return, direct or indirect. If the whole debt were of this character, it would not be a serious burden. Some of the proposals made in the foregoing chapters involve an increase of "investment" debt, by the raising of loans for National Development.

FUTURE FOR DEMOCRACY

The third main block of expenditure consists of the outlay on preparations for war. This is estimated, for the current year, at £253 millions; and it will grow. In the present state of the world, this is, no doubt, necessary expenditure. But if we could get back even to the rate of expenditure in the year before the war (£77 millions) the saving would cover the cost of great improvements in the Social Services, such as we have urged, and still make possible a reduction of taxation. This will only be possible if a policy of peace and all-round disarmament is resolutely and successfully pursued. Here alone is there any chance of reducing expenditure on a large scale. If we are compelled to go on increasing our armaments, we may almost abandon hope of any considerable social advance; we may rather fear national bankruptcy, and the ruin it would bring. For that reason, among others, a sound peace policy is the very foundation of a sound social policy.

In other spheres, no doubt, small economies are possible, here and there, without a reduction of efficiency, especially if the expenditure of the public departments is strictly checked, in the old Gladstonian way. We ought not to despise this kind of wise parsimony, as this generation is too apt to do. Just because there are so many worth-while things for which money is needed, we ought to insist that the State does not take a penny out of our pockets without getting a full penny's worth. The habit of lavish

WAYS AND MEANS

spending which grew up during the war has not yet been checked.

Many of the most valuable reforms advocated in the foregoing chapters involve no serious addition, or no addition at all, to the expenditure of the Government. Some of them, indeed, would lead to a great reduction of expenditure, as in the case of a successful peace policy, or to a great increase of revenue, as in the case of the plan for the taxation of land-values which we have advocated as the essential foundation of a sound land policy. Here, indeed, is the only scheme of taxation that would be socially beneficial in its operation, quite apart from the revenue it would produce.

The reorganisation of our system of government in order to make it more efficient would add scarcely at all to the cost of government. The reorganisation of industry would lay no financial burden upon the State, apart from the creation of a Ministry of Industry and the maintenance of a statistical department. A system of region-planning would cost little: indeed, it would be a paying proposition because of the advantages that would accrue from it.

The freeing of trade would, indeed, deprive the exchequer of much of the large revenue it has recently been raising from customs duties, which have fallen with especial weight on the mass of the people. But it would reduce unemployment, and the heavy unproductive expenditure which it necessitates. It would

FUTURE FOR DEMOCRACY

reduce the cost of living, and increase the purchasing power of the people. It would increase the prosperity of most industries, and therefore their taxable capacity. When freedom of trade was first introduced, it was found that the result was, not to reduce, but to increase, the yield of the existing taxes; and the same thing would follow again, unless the change was made at a time when trade was going down; and even then it would check the decline. Protection only *seemed* to lead to prosperity because it was introduced at the bottom of a slump, and had all the advantage of a steady rise in world-trade.

Again, the measures which we have advocated for the redistribution of wealth would not involve any direct drain upon the treasury. But it must be recognised that they would reduce some of the main present sources of revenue, income-tax, super-tax and death duties. If the wealth of the very rich was reduced, and the incomes of the poorer people only proportionately increased, the yield of these taxes would go down, because the rich pay at a higher rate than the middle class and the poor, and therefore the same amount of wealth, redistributed, would pay less in taxes, even if the number of people assessed to income-tax was increased.

This points to a fundamental fact, which is at the root of our whole problem. As we have pointed out elsewhere (Chapter VII) a mere redistribution of wealth is not enough. Not only would it reduce the yield of

WAYS AND MEANS

existing taxes, but it would not provide enough to make a decent living possible for all our people. And here lies the folly of those who talk as if all that was necessary was to take from the rich and give to the poor, by imposing heavier and heavier taxes upon the rich. If it is true, as is sometimes argued, that everybody who gets more than the average income per head gets it at the expense of the poor, then the recent increase of the salaries of Members of Parliament has been taken from the poor, because £600 a year is far above the average. But it is not true. Efficiency is only secured if people are paid a sufficient salary to attract the kind of men whose services are needed; and cheap inefficiency is bad economy.

The plain truth is that, if we are to be able to make our country happy and prosperous, and to banish poverty, we must greatly increase our national income. Can this be done, and how can it be done ?

There is no shadow of doubt that the production of wealth in this country could be almost immeasurably increased, if all our labour and all our plant were kept fully at work, and if we were ready to use every mechanical device for enlarging and cheapening output. That must depend upon the way in which industry is organised, and upon whether those who are engaged in it get a fair return for any effort they put forth, and a fair share of the product of increased mechanical efficiency. The possible increase of our wealth is therefore dependent upon a sound industrial policy.

FUTURE FOR DEMOCRACY

But there is no use producing goods in increased quantities unless they can be sold. They cannot be sold at home, however greatly we may increase the purchasing power of our people, because our capacity for production in all the chief industries is far greater than the possible home demand for their products; and also because our people must spend a great part of their incomes upon goods that come from abroad—food, the materials for clothing, oils and petrol, and many other things, which we cannot produce at home. The only hope, therefore, of our finding markets for increased output lies in the opening of world-trade. That is the only means whereby we can make practicable the great increase of wealth which is within our power, and which is necessary if the standards of living of our people are to be raised. The freer our trade, the greater our potential production of wealth. The more goods we import, the more goods and services we shall have to give in payment for them.

Moreover, we must, as soon and as fully as possible, resume the practice of finding capital for the development of the less developed countries, for these offer the best markets for the goods we produce; and the capital itself mostly goes out in the form of goods produced in our factories—railway stock, machinery, tools, and implements. We have a special responsibility for the development of the wide areas of our colonial empire; and the more we can help to increase their prosperity the greater will be their power of purchasing goods

WAYS AND MEANS

from us. These markets must be thrown open to the whole world. That is the best way to make the colonies prosperous; and the more prosperous they become, the greater their value as markets.

The many-sided plans for social reconstruction which are outlined in this book are practicable, on two conditions. The first is that real peace is established, and that its reality is attested by all-round disarmament. The second is that a rapid advance is made towards freedom of trade, if possible throughout the world, but at any rate in as large a part of the world as may be. And these two primary conditions are closely related. For the opening of the world's abundance by the freeing of the channels of trade offers the best chance of establishing peace; and so long as the menace of war overhangs the world, it will be difficult to persuade the nations that they can safely abandon the ruinous policy of striving after self-sufficiency. Because we live in an interdependent world, we cannot hopefully pursue our own national well-being except within the framework of a healthy system of international relations. Given that, we shall find that there are no difficulties, financial or other, which cannot be overcome by courage and goodwill.

2

Throughout this book, after the introductory chapters, we have been concerned not so much with ultimate ideals, as with problems that need to be

FUTURE FOR DEMOCRACY

tackled promptly. No doubt it would have been easier and emotionally more effective to draw lurid pictures of existing evils, and glowing, vague, indefinite descriptions of a world in which these evils would no longer exist. But that is not the way in which real progress can be made: the prosaic next steps are the most important. Even so, it is obvious that the whole of the many-sided programme of reform set forth in the foregoing chapters could not possibly be carried out at once, or even in the lifetime of a single Parliament. It may therefore seem to be desirable that some sort of scheme of priorities should be indicated.

Suppose a Government which accepted this programme be returned to power. What would it do first?

In the international sphere it would devote all its energies to laying the foundations of peace, and removing the grievances from which the menace of war arises. It would make the aims of its own policy clear to the world. It would organise the closest co-operation with all Powers that were ready to declare their loyalty to the League of Nations. It would ask the League to set up "fact-finding" commissions to report on colonies, raw materials, trade barriers, currency questions, the treatment of minorities, etc., to which all Powers interested in these questions would be invited to send delegates. Without waiting for the reports of these Commissions, it would throw open the markets of all dependent colonies to the traders of all nations.

WAYS AND MEANS

It would draw up a scheme for the progressive reduction of home tariffs, and would invite the co-operation of all nations that cared to join in the abolition of quotas and the mutual reduction of tariff barriers.

Meanwhile, at home, it would reorganise the system of central government, setting up sub-Cabinets for international affairs, political and economic, for imperial affairs, for national economic affairs, for social affairs, and reducing the size of the supreme cabinet to about ten members, who would be largely free from the day-to-day detail of administration, and would therefore have leisure to take into review the general course of national politics. It would first introduce a measure of Proportional Representation, to take effect when the existing Parliament came to an end, and second a measure for the reconstruction of the Second Chamber. It would also invite the House of Commons to set up a series of Standing Committees, one for each of the main blocks of administrative work, and impose upon these Committees the tasks of examining the Estimates, and of considering the great mass of regulations (having the force of law) which are now issued by the various Departments, almost without check.

Concurrently it would establish Commissions to deal with mineral rights, water-resources, housing and regional planning; and it would instruct these and other existing Commissions, as well as the appropriate departments of State, to draw up full plans, with estimates of costs, for desirable expansions in their

FUTURE FOR DEMOCRACY

respective spheres—plans which could be put into operation as soon as the signs of a trade slump began to appear.

It would set up a new Ministry of Industry, with a strong advisory committee representative of the main aspects of industrial life. It would introduce a Bill defining the powers of industrial self-government that might be exercised by Trade Associations, and by properly constituted Joint Industrial Councils for the determination of wage-rates and other industrial conditions. It would also establish a well-equipped Statistical Bureau, to supply these and other bodies with the necessary material for sound decisions.

In its first Budget, besides reducing trade dues, it would introduce proposals for the taxing and rating of land values, thus creating a large new source of revenue; and it would begin to tackle the problem of inheritance by reducing the Estate Duties, and greatly increasing the Legacy Duties on the inheritance of large estates.

It would at once abolish exemptions to the age-limit of 15 for school attendance, and provide for maintenance allowance in cases of need. It would also abolish the Family Means Test. These would be the first steps in the development of the Social Services; the nature and extent of later steps being dependent upon the degree to which the restoration of peace, the reduction of the burden of armaments, the revival of international trade, and the yield of taxation made large expenditure on these objects practicable.

WAYS AND MEANS

All this is no more than a beginning, a clearing of the ground. Perhaps even so it would form an excessively large programme of work for a single session of Parliament. We have been accustomed to seeing Parliaments with a very small record of achievement since the war, or (perhaps one should say) since the fall of the Coalition Government, which did more big things than most people remember. But it is encouraging to recall how much work the pre-war Liberal Government crowded into a short period. With a reformed system of parliamentary procedure, it ought to be possible to get work done much more expeditiously.

Then would come the main work of reconstruction: measures for the regulation of the banking system, for the control of powerful industrial corporations, for the reorganisation of agriculture; measures tending towards a redistribution of wealth, by the fixation of a minimum living wage, and by the development of profit-sharing, facilities for small investors, and other ways of bringing about a wide diffusion of the ownership of property; measures for the enlargement of the social services, for the improvement of the nutrition of the people, for the development of the educational system; and meanwhile, if there were any large volume of unemployment, and any accumulation of idle capital, schemes of National Development would be afoot.

Before the close of a single Parliament, though the work would be little more than begun, the outlines of a

FUTURE FOR DEMOCRACY

freer society than the world has yet seen would be emerging; and the people would begin to realise that they were engaged upon a great and hopeful work of social reconstruction.

Perhaps, by that time, people would be a little tired of change, and ready for an interval of rest and digestion. Conservatism might then return to power for a while. But, under a reformed electoral system, it would not return with an overwhelming majority that would give it dictatorial power. It might well occupy itself in smoothing away the rough edges left by rapid legislation; and ere long the new social order, in its broad outlines, would become part of the system which Conservatism existed to conserve, and people would again be saying that Conservatism stood where Liberalism stood ten years before. This is the natural function of Conservatism—to adopt, and sometimes a little to develop, the ideas initiated by other people.

It is a useful function, which adjusts the present to the past. Conservatism in its place has great value; but it is not in its true place when it tries to guide the nation through a period of rapid and momentous change; for then the eyes of our leaders should be turned, not reluctantly upon a vanishing past, but hopefully and courageously upon what can be made a noble future.

WAYS AND MEANS

ideal which is governed by two principles. The first is a belief in the sacredness of individual human personality, a belief that every unnecessary restriction of the expression of personality, and of individual energy, is an evil which will sooner or later bring punishment upon the society which encourages or permits it. The second is a belief that the State, as the mouthpiece of the Community, can alone create the conditions which will make a reasonable life possible, but that these conditions must be such as to permit of and encourage the maximum development of individual powers. The State exists for the sake of the individual, not the individual for the sake of the State.

Human society is a living and growing thing, which cannot be fixed down upon a Procrustean bed of formulas. It will continue to grow and change, and we cannot foretell its future development, not even for a century. For that reason it is best that there should be the widest variety of method, the greatest freedom of experimentation, the utmost liberty for the expression, not only in words but in action, of the ideas of individual men and women, so long as they do not impair the corresponding liberty of their fellows. Our life in this age has become so complex that a degree of State regulation and interference has become necessary which our fathers would have regarded with astonishment. But the purpose of this interference must be the creation and maintenance of the maximum amount of freedom.

FUTURE FOR DEMOCRACY

It has become necessary, for example, that policemen should stand at street-crossings to regulate the traffic. In doing so, they may seem to restrict the freedom of the car-driver. In truth, they make the freedom of all car-drivers more real.

In our attempt to exhibit the meaning of the Liberal ideal of a free society, we have been constrained to descend into a great deal of detail; and the multiplicity of the trees may have blurred the outline of the wood. We can only hope that what we have said may have served to show why it is that the Liberal spirit has been capable in the past, and is still capable to-day, of inspiring an almost religious enthusiasm; why it is that, to many thousands of people, it seems to be a far nobler conception of human society than the more dogmatic and mechanical doctrines that have latterly won from it the allegiance of many.

THE END

INDEX

- Abyssinia, 41, 44, 46, 53, 72
Agriculture and home production of foodstuffs, 245-8
Agriculture, organisation of, 248-9
Albania, 53
America, South and Central, 6
American Civil War, 83
American Revolution, 3
Anglo-American Agreement, 62
Arabia, 69
Ashfield, Lord, 220
Asia Minor, 69
Association, Freedom of, 8
Australia, 82, 95, 97
Austria, 45
Austria-Hungary, 14, 19

Bacon, Sir Francis, 191
Balance of trade, 92-4
Baldwin, Lord, 107
Balfour Committee on Trade and Industry, 95
Bank Acts, 167
Banking Commission, 169
Bank of England, 167-8.
Banks, British, 167-9, 263
Beaverbrook, Lord, 138
Bedford, Dukes of, 235
Belgium, 13, 28, 49
Beveridge, Sir William, 97
Bilateral treaties, 62-3-4
Board of Agriculture, 267
Board of Education, 172, 267
Board of Trade, 171, 223
Bohemia, 16
Bolsheviks and Russian dictatorship, 36
Bowley, Professor, 178
Britain's Industrial Future, 170, 229
Broadcasting, 139-40
Buda-Pesth, 19
Bulgaria, 53

Cabinet, British, its function, 112-5, 170-2
Cambridge University, 141, 144
Camrose, Lord, 138
Canada, 95, 246
Canals Commission, 223
Capitalism, 152-9, 189-90, 195, 201-2, 212, 225, 229, 254
Carnegie, Andrew, 207
Chesterton, G. K., 215
China, 6, 38, 53
Cities, problem of the growth of, 240-1
Clark, Colin, 178, 180, 184
Coalition Government, 307
Coke of Holkham, 235
Colonial Office, 267
Colonial system, 11-12
Colonies, problem of, 67-75
Communism, 105, 189, 191-2
Company Acts, 213, 221-3
Company combines, 205-8-9
"Concert of Europe", 13, 53
Congress of Berlin, 69
Conservatives, British, 22, 107, 124, 150, 210, 212, 308
Co-operative Societies, 154, 185, 188
Copyright Law, 13
Corn Laws, 83
Gosgrave, William, 125
Coughlin, Father, 140
Crown Lands, 185
Czechoslovakia, 16-17, 20, 45, 47-8, 53, 57-8, 60

Death Duties, 193-4, 249
Democracy, age of, 5
— virtues of, 6
— meaning of, 103-4
— methods of, 106-7
— defects of, 107-9
— training for, 133
Denmark, 49, 123, 247

INDEX

- De Valera, Eamon, 125
 Development Commission, 172,
 264, 266
 Dickens, Chas., 273
 Dictatorships, methods of, 32,
 44-5, 106, 108-9
 Diocletian, 38
 Director-class, power of the,
 209-11, 226, 230
 Disarmament, 18-19, 35, 303
 Distributists, 215-7
 Domitian, 38
 Drainage, system of, 258
 Economic Advisory Council,
 170-1
 Economic planning, 170-2
 Education for all, 9
 Egypt, 6, 74
 Eire, 123, 125
 Electoral system, 119-22
 Electricity Board, 154
 Electricity Commission, 172
 Electric power, 260
 Empire Day, 151
 Eritrea, 75
 Estonia, 17
 Factory Act (1833), 166, 213
 Fascism, 36, 105, 191
 Finland, 17
Food, Health and Income, 175
 Food-prices, 277
 Forestry, development of, 251
 Forestry Commission, 172, 251,
 267
 Fortunes, methods of reducing
 inherited, 192-5
 France, 18, 21-22, 24-8, 44, 46-7,
 49, 54-5, 58-9, 68-9-70, 257-8
 Freedom, personal, 6
 Freedom of association, 8, 134
 Freedom of enterprise, 10
 Free Society, the, 4-5
 Free Trade, 10, 27, 62, 66, 78-102,
 302-3
 French Revolution, 3
 Germany, 16-22, 28, 31, 33-8,
 41-9, 53-4, 58, 60, 67-9, 71,
 107, 123, 132, 162, 194, 258
 Gladstone, W. E., 298
 Goebbels, Dr., 37
 Gold Standard, 25-6
 Great Britain, 10-12, 21-22, 24-8,
 46 7, 49, 54-5, 58-9, 68-69-70,
 74, 80-95, 102, 106, 141, 144,
 148, 150, 193, 257
 Hadow scheme of education,
 145-6
 Hague Tribunal, 13
 Haldane Commission, 114
 Health services, 271-2
 Hitler, Adolf, 3, 34-5, 37, 41-2,
 44-5, 47-8
 Holland, 28, 49
 House of Commons, 127-130,
 210, 230
 House of Lords, 129-30, 210
 Housing, 281-6
How Britain is Governed (R.
 Muir), n. 132
 Hull, Cordell, 62, 64
Human Needs of Labour (1937),
 176
 Hungary, 16-17
 Imperial Chemical Industries, 204
 Imperial Tobacco Co., 204
 Income, distribution of, 174-84
 India, 6, 88-9, 141
 Industrial Revolution, 165
 Industry, industrial self-govern-
 ment, 228-9
 — reconstruction of industrial
 areas, 165, 238-40
 — State regulation of, 213-4,
 230-1
 Infant mortality, 275-6
 International African Associa-
 tion, 69
 Investment, increased facilities
 for, advocated 196-200
 Iraq, 70
 Italian Somaliland, 75
 Italy, 28, 31, 33, 35-6-7-8-9,
 41-2-3, 45-7, 53-4, 58, 67-8-9,
 258
 Japan, 6, 28, 31, 36-7-8-9, 42, 67,
 88-90, 130
 Jews, 7, 37-8

INDEX

- Joint Industrial Councils, 227-8,
 231
 Joint-stock companies, 196,
 202-5, 225
 Jubaland, 69
 Kenya, 74
 Korea, 38
 Kylsant, Lord, 207
 Labour Exchanges, 272
 Labour Government (1929),
 170-1
 Labour Party, 107, 124, 212
 Land, Liberal policy with regard
 to, 236-7
 — private ownership of,
 233-6
 — safeguarding beautiful dis-
 tricts, 241-2
 Latvia, 17
 Law, Reign of, 7
 League of Nations, 13-15, 20-1-
 2-3, 29, 33, 41, 44, 46, 50, 52-3-
 7, 58, 69, 72-3-4, 96, 108, 304
 Lenin, 33
 Leverhulme, Lord, 192
 Liberal Government (pre-War),
 251, 256, 264, 273, 287, 307
 Liberal Industrial Enquiry, 170
 Liberal Movement, 2-3, 40-1
 Liberal Party, 124, 150, 193, 236,
 248, 264, 269, 271
 Lithuania, 17
 Lloyd George, D., 22
 Locarno Treaties, 22, 45
 L M S Railway, 204
 London University, 144
 Louis XIV, 54
 Manchuria, 38
 Mandatory system, 69-70, 72-3-4
 Marketing Boards, 112
 Maternal mortality, 276
 Means Test, 290-1
Mein Kampf, 37, 42
 Mikado, 39
 Mining Industry, organisation of,
 252-3
 Ministry of Agriculture, 248
 Ministry of Health, 242-3, 271,
 286
 Ministry of Labour, 172
 Ministry of Mines, 164, 172
 Ministry of Transport, 267
 Minority Treaties, 17
 Monetary System, 162-3, 167-9
 Monopolies and free trade, 98
 Moravia, 16
 Mussolini, Benito, 3, 34, 36, 43-5
 Napoleon, 54
 National Debt, 265, 296-7
 National Health Insurance
 Scheme, 272, 276, 279-81
 Nationality, Principle of, 12-13
 National Parks, 165, 241-2-3
 National Socialism, 35
 National Trust, 241
 Nazism, 36-7
 Nero, 38
Next Five Years, 170-1, 266
 Niemoller, Pastor, 39
 Northern Ireland, 131
 Norway, 49, 86
 Nuffield, Lord, 193
 Office of Works, 267
 Orr, Sir John, 175
 Ottawa Conference, 28, 95
 Oxford University, 141, 144
 Parliament, British, its functions,
 116-118, 126-7, 131, 220-1, 231
 Pensions, 272, 278-9
 P.E.P., 170
 Pius XI, Pope, 39
 Planned economy, 159-60, 166
 Poland, 16, 30, 47, 59, 67
 Polish corridor, 60
 Political education, 135-40,
 149-51.
 Population, 274-6.
 Port of London Authority, 154
 Ports and harbours, improvement
 of, 259-60
 Portugal, 68
 Post Office, 157, 185, 266
 Press, popular, 137-9
 Profit-sharing, 225-7-8
 Propaganda, 148
 Property, distribution of, 185-9
 — ownership of, 189-90, 195-6,
 202-5

INDEX

- Protectionism, 26-7, 61, 79-80-1,
88, 90-7-100
Protestants, persecution of, 39
Public Assistance system, 272-3
Public Corporations, 224
Public School Education, 141-3
Public Works, 261-3-4
- Racialism, 36-8
Rearmament, consequences of,
298
Red Cross Convention, 13
Religious persecution, 7, 39
Reparations, 18, 22
Rhineland, 22, 45
Road Board, 172, 256
Road system, reconstruction of
the, 256-7
Roman Catholics, persecution of,
39
Roman Empire, 36-8
Roosevelt, President (F.D.), 3, 62
Rothermere, Lord, 138, 197
Rowntree, Seebohm, 176-80, 182,
245
Ruhr, occupation of, 18, 22, 34-5,
45
Rumania, 16, 30, 47, 59
Runciman, Lord, 188
Russia, 5, 7, 14, 28, 31-3, 35, 36,
38-9, 47, 59, 107, 132, 220, 274
Russian Revolution, 39
- Sanitation, 271
Scotland, 131
“Scrutin de liste”, 123
Secondary school education,
143-5
Second Chamber, 128-130
Serbia, 16
Serfdom, 7
Simon, Sir Ernest, 284
Single Transferable Vote, 123-6
Slavery, Personal, 6-7
Slave-trade, 7, 68
Slovakia, 16
Smuts, Gen., 3, 62
Snowden Budget of 1930, 237
Social Insurance, 271, 273
Socialism, 152-3, 157, 189, 191-2,
199, 217-21, 230-1, 254, 290
- Soudan, the, 74
Spain, 30, 45, 49, 53, 68, 106
Spanish Civil War, 45, 49
Stalin, Joseph, 33, 220
Stamp, Sir Josiah, 178
State, functions of, 161-6
Suffrage, Universal, 5
Sweden, 49, 86-88
Switzerland, 13, 49, 58
Syria, 70
- Tanganyika, 74
Tariffs: the Case Examined, 97
Tasmania, 123
Totalitarian systems, 35, 38-9,
40-1
Trade Board Acts, 213
Trade Cycle, 262-3
Trade Unions, 8, 40, 107, 185,
191, 211-2, 226-7-8, 287
Transport and communications,
163-4, 256
Treasury, British, 167, 169
Trotsky, Leon, 220
Trust Companies, 199, 203
Turkey, 5, 14
- Uganda, 74
Unemployment, 27, 84-7, 90-2,
171, 176, 261-2, 264-5, 268,
272, 286-93
Unemployment Commission, 112
Unemployment Insurance, 287-9
United Front, 123
United States of America, 5, 7,
21, 24-8, 55, 57, 83, 88, 97, 99,
131, 141-2, 263
- Wages and tariffs, 97
Wales, 131, 283
Water resources, 257-8
Wilson, President, 14
Women, Emancipation of, 9, 41
Wordsworth, Wm., 4
Workmen's Compensation Act,
280
World Economic Conference
(1933), 27, 263
- Yugoslavia, 17, 30, 47, 59

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